

## SUBCOMMITTEE NO. 4

## Agenda

Joseph Dunn, Chair  
Ross Johnson  
Denise Moreno Ducheny



Wednesday, May 19, 2004  
1:30 p.m.  
Room 3191

### PART 2 AGENDA

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**CONTROL SECTIONS**

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## ISSUES PRPOSED FOR CONSENT

| Issue # | ORG/ DEPT                            | ISSUE   | DESCRIPTION   | DOLLARS<br>(IN 000s)                   | STAFF RECO.  | BBL/<br>TBL | VOTE |
|---------|--------------------------------------|---|---|--|--|-------------|------|
|         | 0110/ Senate                         | <b>State Appropriations Limit (SAL) Adjustment</b>                      | Adopt a technical budget adjustment to increase this item by \$87,000.  | EXPENSE:<br>\$87<br>General<br>Fund    | <b>Approve budget as adjusted by SAL</b>                 |             |      |
|         | 0120/ Assembly                       | <b>SAL Adjustment</b>   | Adopt a technical budget adjustment to increase this item by \$119,000  | EXPENSE:<br>\$119<br>General<br>Fund   | <b>Approve budget as adjusted by SAL</b>                 |             |      |
|         | 0130/ Joint Expenses – Legislature   | <b>SAL Adjustment</b>   | Adopt a technical correction to increase the Legislative Analyst budget by \$174,000, payable from the Assembly and Senate.   | EXPENSE:<br>\$174<br>General<br>Fund   | <b>Approve budget as adjusted by SAL</b>                 |             |      |
|         | 0500/ Governor's Office              | <b>(none)</b>   | <b>(none)</b>   | <b>(\$)</b>                            | <b>Approve as budgeted</b>                               |             |      |
|         | 0860/ Board of Equalization          | <b>Torrance Field Office Closure: Savings Clarification</b>             | The Administration reported at the April 28 hearing that of the total \$370,000 savings generated by closing the BOE's Torrance Field office, \$296,000 was General Fund. The Administration has provided updated information that the actual General Fund share is \$240,000.  | SAVINGS<br>\$240<br>General<br>Fund    | <b>Adopt the revised General Fund savings allocation</b> |             |      |
|         | 1760/ Department of General Services | <b>Withdrawal of Asset Enhancement Consultant Services BCP Proposal</b> | On March 24, 2004, the Subcommittee adopted a BCP requesting a decrease of \$3.0 million and 1.9 personnel years for selling surplus property identified by a Youth and Adult Correctional Agency. The Administration now requests to withdraw that proposal because (1) a working group that was to initiate this sale not convened and (2) a comprehensive effort to reform the State's Asset | SAVINGS:<br>\$3,000<br>General<br>Fund | <b>Adopt the May Revision Finance Letter</b>             |             |      |

| Issue # | ORG/ DEPT  | ISSUE   | DESCRIPTION  | DOLLARS<br>(IN 000s)                   | STAFF RECO.  | BBL/<br>TBL | VOTE |
|---------|--|---|--|--|--|-------------|------|
|         |  |   | Management practices is proposed in a separate letter (the Reform of Real Property Asset Management Proposal, item 9916).  |  |  |             |      |
|         | 1760/ Department of General Services                       | <b>eGovernment Initiatives</b>                                  | <p>The Administration requests a decrease of \$2,426,000 and 4.8 personnel years to eliminate budget authority for the eGovernment Initiatives program within DGS. A related proposal would move the funding for a portion of these activities to the Department of Consumer Affairs.</p> <p><b>Staff Comment.</b> Staff has identified no concerns with this issue. The corresponding transfer in the DPA budget has been recommended for approval.</p>   | SAVINGS:<br>\$2,426<br>General<br>Fund | <b>Adopt May<br/>Revision<br/>Finance Letter</b>     |             |      |
|         | 1760/ Department of General Services                       | <b>School Facilities Program Workload Enhancements</b>          | <p>The Administration requests an increase of \$777,000 and the addition of 10.0 three-year limited-term positions to staff the School Facilities Program for additional workload due to voter approval of Proposition 55, the Kindergarten-University Public Education Facilities Bond Act of 2004.</p> <p>Staff has identified no concerns with this proposal.</p>   | SAVINGS:<br>\$777<br>General<br>Fund   | <b>Adopt May<br/>Revision<br/>Finance Letter</b>     |             |      |
|         | 9620/ Payment of Interest on General Fund Loans            | <b>(none)</b>   | (none)   | (\$0)                                  | <b>Approve as<br/>budgeted</b>                       |             |      |
|         | 9625/ Interest Payments to the Federal Government          | <b>(none)</b>   | (none)   | (\$0)                                  | <b>Approve as<br/>budgeted</b>                       |             |      |
|         | 9650/<br>Health and Dental Benefits for Retired Annuitants | <b>Adjustment for Health and Dental Benefits for Annuitants</b> | <p>The Administration requests that the Health and Dental Benefits for Annuitants budget item be decreased by \$1.6 million to reflect lower estimated costs for dental premiums. The Governor's Budget had projected the State's cost for the 2004-05 dental premium to increase by 5 percent. The new rates are not expected to increase more than two percent.</p> <p><b>Staff Comment.</b> Health and Dental providers and PERS have recently negotiated health insurance premiums for the</p> | SAVINGS:<br>\$1,600<br>General<br>Fund | <b>Adopt the May<br/>Revision<br/>Finance Letter</b> |             |      |

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**AGENDA #2: State Administration and General Government**

| Issue # | ORG/ DEPT  | ISSUE                                   | DESCRIPTION  | DOLLARS<br>(IN 000s) | STAFF RECO.   | BBL/<br>TBL | VOTE |
|---------|--|---|--|----------------------|---|-------------|------|
|         |  |   | 2005 calendar year. The \$1.6 million downward adjustment for reflects those negotiations.   |                      |   |             |      |
|         | 9840/ Augmentation for Contingencies and Emergencies                     | (none)                                  | (none)   | (\$0)                | Approve as budgeted                                   |             |      |
|         | Control Section 3.60 Contribution to Public Employee Retirement Benefits | (none)                                  | (none)   | (\$0)                | Adopt as budgeted                                     |             |      |
|         | Control Section 4.60 (Amended)   | <b>Rental Rates for State Buildings</b> | <p>The Administration requests that Control Section 4.60, Rental Rates, be amended to include the ability to adjust any item of appropriation to fund costs associated with debt service, rent, or operations and maintenance of any space occupied by a state entity.</p> <p>Staff has identified no concerns with this proposal.</p> | (\$0)                | <b>Adopt the May Revision Finance Letter proposal</b> |             |      |

VOTE: \_\_\_\_\_

## ISSUES PROPOSED FOR DISCUSSION

| Issue # | ORG/ DEPT                            | ISSUE   | DESCRIPTION  | DOLLARS<br>(IN 000s)  | STAFF RECO.   | BBL/<br>TBL | VOTE |
|---------|--------------------------------------|---|--|---|---|-------------|------|
| 1       | 0650/Office of Planning and Research | <b>LAO Option – Eliminate the Office of Planning and Research, a savings of approximately \$4.0 million General Fund.</b> | <p>Subsequent to the March 10, 2004, hearing on this issue, the LAO clarified that approximately \$4.0 million of the OPR's \$4.8 million total annual program spending could potentially be eliminated. Only two programs would be preserved: the GoServ volunteer program (based on the anticipated loss of \$50 million federal funds if the GoServ were eliminated) and IT support for the Governor's office. The LAO concluded that all of the OPR's \$4.8 million in annual funding is General Fund fungible.</p> <p>It is not evident that the OPR activities suggested for elimination or consolidation would receive the same level of service if provided by other agencies.</p>   | SAVINGS:<br>\$4,000<br>General Fund                           | <b>Reject the LAO recommendation</b>  | TBL         |      |
| 2       | 0840/ State Controller's Office      | <b>Unclaimed Property Program Fees</b>  | <p>The Administration requests that the SCO's main General Fund support item be increased by \$5,102,000 and the proposed Unclaimed Property Fund item be eliminated (\$5,102,000 reduction).</p> <p>The Administration reports that the SCO has provided information demonstrating that savings from not paying interest on approved unclaimed property claims (a change implemented in the 2003-04 fiscal year) will be sufficient to cover program costs beginning in 2005-06. With this new information, the Administration seeks to withdraw their April 1 Finance Letter recommending a six percent fee and that \$329,000 General Fund be provided for a workload increase. The ongoing costs of \$13.4 million in direct and</p> | SAVINGS:<br>\$13,400<br>General Fund<br><br>EXPENSE:<br>\$329 | <b>1. Approve the Administration's Issue #107 for the funding and staffing related to the expanded Unclaimed Property Program workload (\$329,000).</b><br><br><b>2. Reduce the</b> |             |      |

| Issue # | ORG/ DEPT                       | ISSUE  | DESCRIPTION  | DOLLARS<br>(IN 000s)  | STAFF RECO.   | BBL/<br>TBL | VOTE |
|---------|---------------------------------|--|--|---|---|-------------|------|
|         |                                 |  | <p>support costs associated with the program would be paid in funded in the budget year from a General Fund appropriation.</p> <p>LAO Recommendation. The LAO proposes that the state assess a fee to cover Unclaimed Property Program costs. The LAO estimates that the fee would be set to collect about \$6.7 million in revenues in 2004-05 and \$13.4 million in future years (with equivalent General Fund benefits). The fee per transaction necessary to generate funding for the program is 7.5 percent.</p> <p><b>Staff Comment.</b> It is appropriate to charge a fee to property claimants when a service is provided by the state. The alternative is for all taxpayers to pay the cost of running the program. Unclaimed property program revenues spent on program expenses are funds that would otherwise become revenues to the state's General Fund.</p> |   | <b>SCO's General Fund appropriation by \$6.7 million in the budget year (1/2 year cost) to account for the funding provided by the Unclaimed Property Fees Account.</b> |             |      |
| 3       | 0840/ State Controller's Office | <b>Medi-Cal Non-Institutional Providers Audits Program</b> | <p>An April 21<sup>st</sup> Subcommittee issue involved the transfer of the Medi-Cal Provider Audits Program to the Department of Health Services, with an associated net savings of \$541,000 (\$270,500 General Fund) and 5.5 positions.</p> <p>The Administration has submitted a revised request that Item 0840-001-0001 be amended by \$1,858,000 (\$929,000 General Fund and \$929,000 Reimbursements) and that 20.0 positions be retained to enable the SCO to continue to conduct Medi-Cal provider audits.</p> <p>Under the revised proposal the Controller will conduct the audits at the reduced funding and staffing level.</p>  | <p>EXPENSE<br/>\$929<br/>General<br/>Fund, \$929<br/>reimburse-<br/>ments.</p> <p>SAVINGS;<br/>\$270<br/>General<br/>Fund, \$270<br/>reimburse-<br/>ments</p> | <b>Adopt the May Revision Finance Letter</b>  |             |      |
| 4       | 0840/ State Controller's Office | <b>Performance Audits</b>                                  | The SCO has outlined a broad proposal to close the budget gap through activities such as using performance audits to cut waste and make more efficient use of tax dollars more.  | (\$0)   | <b>Reject the Performance Audits</b>  | BBL         |      |

| Issue # | ORG/ DEPT                          | ISSUE                             | DESCRIPTION  | DOLLARS<br>(IN 000s)                 | STAFF RECO.                                      | BBL/<br>TBL | VOTE |
|---------|------------------------------------|-----------------------------------|--|--------------------------------------|--|-------------|------|
|         |                                    |                                   | <p>The following budget bill language for the SCO's main General Fund item would enable the SCO to conduct performance audits without a specific General Fund appropriation and would remove prior restrictions on the SCO's ability to conduct independent audits. Two positions will be redirected to implement the performance audits.</p> <p><i>The funds appropriated to the Controller in this act may not be expended for any performance review or performance audit until after the Controller has provided the Joint Legislative Budget Committee with a 14-day notification of his/her intent to perform such audit as well as the scope of the audit to be performed. Within 30 days of completion of any such performance audit, the Controller shall provide to the Joint Legislative Budget Committee a copy of a report detailing the Controller's findings and recommendations.</i></p> <p>Revenues identified through these audits would be subject to legislative approval to implementing the proposed savings activities. Formal estimates have been withheld pending legislative approval of the proposed subjects for audit.</p> <p><b>Staff Comment. The Subcommittee may wish to request testimony on—in light of this request for new auditing authority—the SCO's decision to reduce audit positions in their Control Section 4.10 plan and the effects those reductions have had on their auditing capabilities.</b></p> |                                      | proposal.  |             |      |
| 5       | 0840/ State<br>Controller's Office | <b>General Fund<br/>Reduction</b> | <p>Through a budget letter directive the Department of Finance directed each agency and state organization without agency representation to prepare a three percent ongoing expenditure reduction plan.</p> <p>The Administration is proposing to reduce the SCO's General Fund Operating Expenses and Equipment by</p>  | SAVINGS:<br>\$122<br>General<br>Fund | <b>Adopt May<br/>Revision<br/>Finance Letter</b> |             |      |



| Issue # | ORG/ DEPT                          | ISSUE   | DESCRIPTION   | DOLLARS<br>(IN 000s)  | STAFF RECO.   | BBL/<br>TBL | VOTE |
|---------|------------------------------------|---|---|---|---|-------------|------|
|         |                                    |   | \$122,000.  |   |   |             |      |
| 6       | 0840/ State<br>Controller's Office | <b>Human Resource<br/>Management<br/>System 21<sup>st</sup><br/>Century Project<br/>Procurement<br/>Phase</b> | <p>The Administration requests that the SCO's main General Fund support item be amended by:</p> <ol style="list-style-type: none"> <li>1. Increasing Reimbursements by \$1,462,000,</li> <li>2. Adding Control Section 25.25 to appropriate up to \$2,520,000 in special funds,</li> <li>3. Adding 11.2 one-year limited-term positions be provided for the workload associated with the selection of a software vendor and a systems integrator through two separate procurements, the completion of a business case/benefits study, and the completion of a Special Project Report.</li> </ol> <p>These changes will provide a total of \$3.982 million to the SCO. The project will replace the SCO's employment history, payroll, leave accounting, and position control systems.</p> <p>The SCO estimates gross project costs of \$132.1 million and proposes to finance these costs over ten fiscal years. Potential statewide savings associated with this proposal will be identified prior to July 2005.</p> <p>Draft trailer bill and Control Section language to implement these proposals are attached (Attachments A and B).</p> | <p>EXPENSE:<br/>\$3,982</p> <p>\$2,520<br/>Special<br/>Funds,<br/>\$1,462<br/>Reimburse-<br/>ments.</p> | <b>Adopt May<br/>Revision<br/>Finance Letter</b>  | BBL,<br>TBL |      |
| 7       | 0845/ Department of<br>Insurance   | <b>Funding Reserve<br/>for Fraud<br/>Automobile and<br/>Urban Grant<br/>Programs</b>                          | <p>On May 5, 2004, the Subcommittee requested that the Department of Insurance explore alternatives to spending the balance of approximately \$5 million available for Fraud Automobile and Urban Grant Programs. This additional reserve funding was caused by the early repayment of a General Fund Loan to the Insurance Fund.</p> <p>The Department of Insurance reports that it intends to submit FY 05-06 BCPs with a detailed plans to reduce the Local Assistance fund balances. The Fraud Division will</p>  | \$5,000<br>Insurance<br>Fund  | <b>Approve the<br/>DOI budget as<br/>budgeted.<br/>(No Loan or<br/>new<br/>expenditure)</b> |             |      |

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**AGENDA #2: State Administration and General Government**

| Issue # | ORG/ DEPT                     | ISSUE   | DESCRIPTION   | DOLLARS<br>(IN 000s)  | STAFF RECO.   | BBL/<br>TBL | VOTE |
|---------|-------------------------------|---|---|---|---|-------------|------|
|         |                               |   | work with local DA's to distribute funds for fraud activities at the local level.<br><br><b>Staff Comment.</b> The Legislature could opt to re-issue this portion of the Insurance Fund loan to the General Fund for a one-year period.   |   |   |             |      |
| 8       | 0845/ Department of Insurance | <b>Earthquake Grants and Loans Program: Statutory Authority</b> | On March 24, the Subcommittee adopted a Governor's Budget proposal to transfer funding in the Earthquake Grants and Loans Program to the General Fund. Subsequent to that hearing it was learned that the authority for the program exists only in uncodified statute. Consequently, re-funding of the program would have to occur through legislation reestablishing the program.<br><br>This is a "clean-up" action will allow for conformance with the Assembly's treatment of the Earthquake Grants and Loans Program proposal.   | (\$0)   | <b>Adopt the Administration's Earthquake Grants and Loans Program proposal without amendment.</b> |             |      |
| 9       | 0860/ Board of Equalization   | <b>Salary Savings Correction</b>                                | The Administration requests that the BOE's main General Fund support item be amended to increase the BOE's budget by \$8,300,000 (\$5,395,000 General Fund and \$2,905,000 Reimbursements) in order to reduce the BOE's required salary savings from 310 positions to 150 positions, an increase of 160 positions.<br><br>Without this salary savings correction, the BOE indicates it would need to layoff 105 positions with an associated revenue loss of \$29.7 million (\$19.3 million General Fund and \$10.4 million local revenue).<br><br>This action will allow the BOE to fill 55 collector positions, which is estimated to generate an additional \$8.4 million in the budget year (\$5.5 million General Fund and \$2.9 million local revenue) and \$18.9 million (\$12.3 million General Fund and \$6.6 million local revenue) in 2005-06. The cost associated with the 105 positions is \$5.6 million and the | EXPENSE:<br>\$8,300<br><br>(\$5,395<br>General<br>Fund<br>And \$2,905<br>Reimburse-<br>ments)<br><br>SAVINGS:<br>\$8400 | <b>Adopt the May Revision Finance Letter</b>  |             |      |

| Issue # | ORG/ DEPT                         | ISSUE   | DESCRIPTION   | DOLLARS<br>(IN 000s)   | STAFF RECO.  | BBL/<br>TBL | VOTE |
|---------|-----------------------------------|---|---|--|--|-------------|------|
|         |                                   |   | <p>cost associated with the 55 collector positions is \$2.7 million.</p> <p><b>Staff Comment.</b> This salary savings correction would greatly reduce the BOE's Control Section 4.10 reduction.</p> <p><b>The Subcommittee may wish to request testimony from the BOE on where other non-revenue-producing positions may be reduced so that the BOE may adhere to their Control Section 4.10 reduction plan.</b></p> <p><b>The Subcommittee may also wish to request testimony on why the 4.10 plan included revenue-producing positions in the first place.</b></p>  |  |  |             |      |
| 10      | 0860/<br>Board of<br>Equalization | <b>Cigarette and Tobacco Twice Monthly Payments</b> | <p>The Administration requests the BOE's budget be augmented by \$53,000 and .5 position on a limited-term basis through December 31, 2006. This funding and position are sought to implement the provisions of Chapter 867, Statutes of 2003 (AB 1666), which allows cigarette and tobacco product distributors to elect to file excise tax returns either on a monthly or twice-monthly basis (a potential tax benefit for tobacco distributors).</p> <p><b>Staff Comment.</b> At the April 28 hearing on this issue, the Subcommittee asked that BOE report back on whether this one-half of a position could be absorbed.</p> | EXPENSE<br>\$53<br>(\$6<br>General<br>Fund,<br>\$47 other<br>funds)            | <b>Adopt the Finance Letter, revised for the correct General Fund share.</b> |             |      |
| 11      | 0860/<br>Board of<br>Equalization | <b>Board Staff Reduction</b>                        | <p>The LAO has provided a recommendation that the Legislature reduce the budget authority for staff support positions for Board members of the BOE and reset their budget authority to the 2002-03 level. This reduction would potentially result in savings of \$700,000 General Fund and \$300,000 special fund reimbursements, as well as a reduction of 14 positions. The LAO asserts that tasks for the Board have not changed appreciably since 2002-03 and that it is reasonable that the Board itself absorb losses</p>   | SAVINGS:<br>\$1,000<br>(\$700<br>General<br>Fund, \$300<br>reimburse<br>ments) | <b>Reject the LAO Option</b>   |             |      |

| Issue # | ORG/ DEPT                         | ISSUE  | DESCRIPTION  | DOLLARS<br>(IN 000s)   | STAFF RECO.  | BBL/<br>TBL | VOTE |
|---------|-----------------------------------|--|--|--|--|-------------|------|
|         |                                   |  | to staff support.<br><br>The Subcommittee held this issue open on April 28, 2004.  |  |  |             |      |
| 12      | 0860/<br>Board of<br>Equalization | <b>Alternative<br/>Cigarette Tax<br/>Stamp</b>               | <p>In conformance with Chapter 881, Statutes of 2002, the Administration requests to augment BOE's budget to provide funding to replace the current cigarette tax stamps and meter impressions with a stamp or meter impression that can be read by a scanning or similar device in order to decrease tax evasion.</p> <p>Implementation of the new tax stamp is to take place January 1, 2005. The full-year cost of the program will be \$9.8 million. The BOE estimates increased revenue of \$28.2 million (\$5.6 million General Fund) annually from both excise and sales taxes as a result of decreased tax evasion. Budget year revenues will one-half those amounts.</p> <p>Related budget bill language for a special project report on the electronic mechanism to implement Chapter 881, Statutes of 2002, is as follows:</p> <p><i>Of the amount appropriated in this item, the \$4,904,000 allocated for the Alternative Cigarette Stamp Tax contract shall not be expended until the Department of Finance approves the Special Project Report for the Alternative Cigarette Tax Stamp Project.</i></p> | <p>EXPENSE:<br/>\$4,904<br/><br/>(\$564<br/>General<br/>Fund,<br/>\$4340<br/>other<br/>funds)</p> <p>SAVINGS:<br/>\$14,100</p> | <b>Adopt the May<br/>Revision<br/>Finance Letter</b> | BBL         |      |
| 13      | 0860/<br>Board of<br>Equalization | <b>450 N Street<br/>Exterior<br/>Curtainwall<br/>Repairs</b> | <p>The Administration requests that the BOE's main support budget item be amended to increase the BOE's budget by \$1,207,000 in order to begin the process of repairing the exterior curtainwall and precast panels on BOE headquarters office building located at 450 N Street, Sacramento.</p> <p>The neoprene gaskets that hold the glass inside the</p>   | <p>EXPENSE:<br/>\$1,207<br/>(\$718<br/>General<br/>Fund, \$345<br/>reimburse-<br/>ments,<br/>\$144</p>                         | <b>Adopt the May<br/>Revision<br/>Finance Letter</b> |             |      |

| Issue # | ORG/ DEPT                         | ISSUE   | DESCRIPTION   | DOLLARS<br>(IN 000s)          | STAFF RECO.  | BBL/<br>TBL | VOTE |
|---------|-----------------------------------|---|---|-------------------------------|--|-------------|------|
|         |                                   |   | <p>aluminum frames of the 25-story building have deteriorated and are allowing excessive water intrusion into the building. Damage to ceilings, equipment, and furnishings continues to increase. The risk of toxic mold growth and “sick building” syndrome is reportedly increasing over time.</p> <p>This request will fund a study, preliminary plans, and working drawings. The study will determine the most cost-effective method of repair, and funding will be requested in 2005-06.</p> <p><b>Staff Comment. The Subcommittee may wish to request the Administration report on the potential for litigation on this issue, the cost estimate for working drawings, and the cost of doing a short term fix (e.g. a wet seal) while a claim against the gasket manufacturer is pursued.</b></p>   | other funds)                  |  |             |      |
| 14      | 0860/<br>Board of<br>Equalization | <b>Closure of a Tax Loophole: The 90-day Rule for Vehicles, Vessels, and Aircraft</b> | <p>Under existing law, Californians who purchase a vehicle, vessel, or aircraft outside the state and bring it into the state generally must pay the sales and use tax (less a credit for any sales tax paid to the state where the purchase occurred). However, the transaction is exempt from California tax if the purchaser takes title and uses the vehicle, vessel, or aircraft outside the state for at least 90 days. Dealers and purchasers of expensive items, such as yachts and motor homes have exploited this exemption to avoid the sales and use tax (SUT). The most well publicized example is that some Californians purchase yachts from California brokers, but take delivery offshore, berth them in Mexico for 90 days, and then bring them back to California tax-free.</p> <p>AB 694 (Levine) would restrict this loophole by establishing a rebuttable presumption that the vehicle, vessel, or aircraft is subject to the SUT if it was purchased by a California</p> | SAVINGS:<br>Up to<br>\$34,500 | <b>Adopt the provisions of AB 694 (Levine) as trailer bill to capture up to \$34.5 million in savings in the budget year</b> | TBL         |      |

| Issue # | ORG/ DEPT                         | ISSUE  | DESCRIPTION   | DOLLARS<br>(IN 000s)   | STAFF RECO.                | BBL/<br>TBL | VOTE |
|---------|-----------------------------------|--|---|--|----------------------------|-------------|------|
|         |                                   |  | <p>resident and registered in California during the first year of ownership or was stored for more than half the time within the state during the first year after purchase.</p> <p>The Board of Equalization estimates that AB 694 would increase General Fund revenues by \$34.5 million annually by closing this loophole. In addition, the board estimates a gain of \$20.1 million annually to local sales and use tax revenues</p> <p><b>Staff Comment. The Subcommittee may wish to request the BOE report on the support requirements and timing of implementation for the provisions of AB 694.</b></p> <p>See Attachment C for the provisions of AB 694.</p>  |  |                            |             |      |
| 15      | 0860/<br>Board of<br>Equalization | <b>Chapter 890,<br/>Statutes of 2003<br/>(Tobacco<br/>Licensing Act)</b> | <p>Chapter 890, Statutes of 2003, (AB 71) mandated that the BOE administer a statewide program to license businesses that distribute cigarettes and tobacco products. The new program prohibits manufacturers, importers, distributors, and wholesalers from selling cigarettes and tobacco products to an unlicensed distributor, wholesaler, or retailer, and imposes fines and penalties for violation of the law.</p> <p>The Administration requests positions and funding to be paid for out of the Cigarette and Tobacco Compliance Fund. That fund was established to improve voluntary compliance by reducing smuggling and counterfeiting and receives income through the licensing tobacco businesses.</p> <ul style="list-style-type: none"> <li>\$5,598,000 (Cigarette and Tobacco Products Compliance Fund) and 40.6 personnel years in 2003-04</li> </ul> | <p>EXPENSE:<br/>\$8,161<br/>(Cigarette and Tobacco Products Compliance Fund)</p> <p>SAVINGS:<br/>Up to<br/>\$58,000 -<br/>\$87,000<br/>(various funds)</p> | <b>Approve as budgeted</b> |             |      |

| Issue # | ORG/ DEPT                   | ISSUE   | DESCRIPTION   | DOLLARS<br>(IN 000s)                | STAFF RECO.                                   | BBL/<br>TBL | VOTE |
|---------|-----------------------------|---|---|-------------------------------------|---|-------------|------|
|         |                             |   | <ul style="list-style-type: none"> <li>\$8,161,000 (Cigarette and Tobacco Products Compliance Fund) and 80.7 personnel years in 2004-05</li> <li>\$8,044,000 (Cigarette and Tobacco Products Compliance Fund) and \$80.7 personnel years ongoing</li> </ul> <p>The BOE estimates that revenues of \$58 to \$87 million annually will be generated once fully trained staff are operating.</p>   |                                     |   |             |      |
| 16      | 0860/ Board of Equalization | <b>Special Taxing Districts Reimbursement Cap</b> | <p>Chapter 890, Statutes of 1998 (Sweeney) required the BOE in certain circumstances to cap the reimbursements it receives from special taxing districts, in order to make tax assessments more financially feasible for these districts.</p> <p>The LAO recommended that the Legislature make the special taxing districts self-supporting by ending the caps on reimbursements the BOE may receive for administrative costs. This action is estimated to reduce the General Fund appropriation of this item by \$1.5 million annually. Reimbursements from special taxing districts would be increased by an equivalent amount.</p> <p><b>Staff Comment.</b> At the May 5 hearing this issue was held open pending resolution of the final savings amount. The final amount is \$1.5 million.</p> | SAVINGS:<br>\$1,500<br>General Fund | <b>Adopt the LAO proposal.</b>                | TBL         |      |
| 17      | 0860/ Board of Equalization | <b>Out of State Field Offices</b>                 | <p>The BOE operates three out of state offices, Chicago, New York, Houston, and one office in Sacramento for out of state services.</p> <p>This issue was discussed previously at the April 28 hearing.</p> <p><b>Staff Comment.</b> The following supplemental report language may be adopted by the Legislature to initiate a review of the BOE's out of state facilities needs.</p>  | (\$0)                               | <b>Adopt the Supplemental Report Language</b> |             |      |

| Issue # | ORG/ DEPT                | ISSUE  | DESCRIPTION   | DOLLARS<br>(IN 000s)                          | STAFF RECO.   | BBL/<br>TBL | VOTE |
|---------|--------------------------|--|---|---|---|-------------|------|
|         |                          |  | <i>The Board of Equalization (BOE) shall provide to the Chair of the Joint Legislative Budget Committee and the chairs of the fiscal committees of the Legislature by December 1, 2004, a report containing the following information: (1) unit costs of providing taxpayer services and audit and collection activities at the BOE's out of state offices; (2) net annual budgetary benefits of closing the four BOE out of state offices; (3) estimated impact on all BOE-collected tax revenues from out of state office closures identified in (2) above; (4) net annual benefits of reducing or eliminating all out-of-state offices. Data provided shall include one-time and ongoing budgetary and revenue impacts.</i>  |   |   |             |      |
| 18      | 0890/ Secretary of State | <b>April Finance Letter for Help America Vote Act (HAVA)</b> | <p>The federal Help America Vote Act of 2002 (HAVA) is expected to provide approximately \$260 million in federal funds for changes to election equipment and processes in California. Because federal spending guidelines have not yet been released, the budgeting of HAVA funds was not a part of the budget process. Consequently, the spending authority for these funds must be provided through a mid-year mechanism.</p> <p>In an April Finance Letter the Secretary of State (SOS) provided a spending plan for anticipated federal funds and requested spending authority. After reviewing that Finance Letter, the LAO and legislative staff reiterated concerns that the SOS should provide a more detailed spending plan before spending authority be granted.</p> <p>The budget bill language for Items 0890-001-0890 and 0890-101-0890 (Attachment D) is expected to ensure an appropriate level of oversight for the Administration and Legislature. The key elements of the language are:</p> <ul style="list-style-type: none"> <li>• A detailed spending plan including: proposed</li> </ul> | REVENUE:<br><br>\$260,000<br>Federal<br>Funds | <b>Reject the April Finance Letter.</b><br><br><b>Adopt the Proposed Budget Bill Language</b> | BBL         |      |

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**AGENDA #2: State Administration and General Government**



| Issue # | ORG/ DEPT                            | ISSUE  | DESCRIPTION   | DOLLARS<br>(IN 000s) | STAFF RECO.  | BBL/<br>TBL | VOTE |
|---------|--------------------------------------|--|---|----------------------|--|-------------|------|
|         |                                      |  | <p>expenditures by function and activity, information on hiring practices, a timeline on meeting federal requirements, and the estimated costs that may exceed appropriations.</p> <ul style="list-style-type: none"> <li>A provision that plan approval be subject to 30-day review by the JLBC and the committee that reviews elections issues.</li> </ul> <p>Future budgeting of federal HAVA funds will be a part of the normal budget development process.</p> |                      |  |             |      |
| 19      | 0950/<br>State Treasurer's<br>Office | <b>Mandate: County<br/>Treasury Oversight<br/>Committees</b>       | <p>This mandate provides reimbursements to locals for the costs of providing certain information to the State Treasurer, including the preparation and submittal of annual investment policies. This mandate was suspended in 2003-04.</p> <p>The April 21 Subcommittee action was to hold open and allow the relevant parties to explore alternatives through trailer bill language. No alternatives have been identified.</p>                                     | (\$0)                | <b>Approve as<br/>budgeted<br/>(i.e. suspend)</b>                  |             |      |
| 20      | 0950/<br>State Treasurer's<br>Office | <b>Mandate:<br/>Investment<br/>Reports—Cities<br/>and Counties</b> | <p>This mandate provides reimbursement to local agencies who prepare and provide information related to their annual investment policies and quarterly investment reports. This mandate was suspended in 2003-04.</p> <p>The April 21 Subcommittee action was to hold open and allow the relevant parties to explore alternatives through trailer bill language. No alternatives have been identified.</p>  | (\$0)                | <b>Approve as<br/>budgeted<br/>(i.e. suspend)</b>                  |             |      |
| 21      | 0950/<br>State Treasurer's<br>Office | <b>Delete budget bill<br/>language related to<br/>mandates.</b>    | <p>Contingent upon suspension of the aforementioned mandates, delete Provisions 1 and 2 of Item 0950-295-0001 regarding the Treasurer's mandates. These provisions are standard wording that controls the expenditure of funds and allows augmentations in the case of deficiencies. The provisions are not applicable to these mandates if they are suspended.</p>   | (\$0)                | <b>Delete<br/>Provisions 1<br/>and 2 of Item<br/>0950-295-0001</b> |             |      |

| Issue # | ORG/ DEPT   | ISSUE   | DESCRIPTION  | DOLLARS<br>(IN 000s)  | STAFF RECO.   | BBL/<br>TBL | VOTE |
|---------|---|---|--|---|---|-------------|------|
|         |   |   | The Assembly has previously taken this action.   |   |   |             |      |
| 22      | 0954/<br>Scholarshare<br>Investment Board                         | <b>Prior Year Budget Adjustment</b>   | <p>The Administration requests that the 2003-04 General Fund reserve be adjusted to add \$50.0 million from prior year funds previously encumbered for earned but unclaimed Governor's Scholars awards.</p> <p>The Scholarshare Investment Board will retain \$6.0 million for expected claims from students in the budget year. Enabling trailer bill language (Attachment E) would continue the authority to provide awards to students who have already successfully earned an award (i.e. when the students enroll at eligible higher educational institutions).</p> <p>The effect of this requested action is reflected in the prior year adjustments to the General Fund reserve reported in the May Revision.</p> | <p>SAVINGS:<br/>\$50,000<br/>General<br/>Fund</p> <p>(Prior Year)</p> | <b>Adopt the May Revision Finance Letter</b>  | TBL         |      |
| 23      | 0956/ California<br>Debt Investment and<br>Advisory<br>Commission | <b>California Debt Investment and Advisory Commission Budget and Loan</b>                                   | <p>The California Debt and Investment Advisory Commission (CDIAC) was created in 1981 to assist state departments and local governments in effectively issuing, monitoring, and managing public debt.</p> <p>This California Debt and Investment Advisory Commission Fund has provided important General Fund relief in recent years due to the availability of funds for loan from that fund.</p> <p>It has been determined that \$750,000 could be loaned from this account for two years. However, this amount would provide relatively little General Fund relief and may not be absolutely necessary to bridge the structural budget gap.</p>   | <p>SAVINGS:<br/>\$750<br/>General<br/>Fund</p>                        | <b>Approve the California Debt Investment and Advisory Commission Budget. Do not adopt the loan proposal.</b> |             |      |
| 24      | 0959/ California<br>Debt Limit Allocation<br>Committee            | <b>California Debt Limit Allocation Committee Budget and Loan from the California Debt Limit Allocation</b> | <p>The California Debt Limit Allocation Committee was created through a proclamation signed by the Governor on July 19, 1984, in response to the Federal Tax Reform Act of 1984.</p> <p><b>Staff Comment.</b> This California Debt Limit Allocation</p>  | <p>SAVINGS:<br/>\$3500<br/>General<br/>Fund</p>                       | <b>Approve the California Debt Limit Allocation Committee budget and</b>                                      | BBL         |      |

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**AGENDA #2: State Administration and General Government**

| Issue # | ORG/ DEPT  | ISSUE   | DESCRIPTION  | DOLLARS<br>(IN 000s) | STAFF RECO.  | BBL/<br>TBL | VOTE |
|---------|--|---|--|----------------------|--|-------------|------|
|         |  | <b>Committee Fund</b>   | Committee Fund has provided important General Fund relief in recent years due to the availability of funds for loan from this fund. In consultation with the State Treasurer's Office it was determined that \$3.5 million could prudently be loaned from this account for two years (repayment by October 1, 2006) under specified conditions for repayment.<br><br>See Attachment F for budget bill language.  |                      | <b>budget bill language for \$3.5 million loan.</b>  |             |      |
| 25      | 0968/ California Tax Credit Allocation Committee | <b>California Tax Credit Allocation Committee Budget and Loan from the Occupancy Compliance Monitoring Account, Tax Credit Allocation Fee Account</b> | The California Tax Credit Allocation Committee (CTCAC) was established to provide federal low-income housing tax credits to foster development of affordable rental housing. For 2003, the program provides tax credits of \$1.75 per capita. The CTCAC's activities are funded from fees paid by applicants for tax credits and tax deductions.<br><br><b>Staff Comment.</b> The Occupancy Compliance Monitoring Account, Tax Credit Allocation Fee Account has provided important General Fund relief in recent years due to the availability of funds for loan from this fund. In consultation with the State Treasurer's Office it was determined that \$35 million could prudently be loaned from this account for two years (repayment by October 1, 2006) under specified conditions for repayment.<br><br>See Attachment G for budget bill language. | SAVINGS:<br>\$35,000 | <b>Approve the California Tax Credit Allocation Committee budget and budget bill language for \$35 million loan.</b> | BBL         |      |
| 26      | 0968/ California Tax Credit Allocation Committee | <b>Loan from the Tax Credit Allocation Fee Account</b>  | <b>Staff Comment.</b> This Tax Credit Allocation Fee Account has provided important General Fund relief in recent years due to the availability of funds for loan from this fund. In consultation with the State Treasurer's Office it was determined that \$31 million could prudently be loaned from the Tax Credit Allocation Fee Account for two years (repayment by October 1, 2006) under specified conditions for repayment.<br><br>See Attachment H for budget bill language.  | SAVINGS:<br>\$31,000 | <b>Approve budget bill language for \$31 million loan</b>  | BBL         |      |

| Issue # | ORG/ DEPT                                       | ISSUE   | DESCRIPTION  | DOLLARS<br>(IN 000s)  | STAFF RECO.  | BBL/<br>TBL | VOTE |
|---------|---|---|--|---|--|-------------|------|
| 27      | 0985/<br>California School<br>Finance Authority | <b>Charter School<br/>Facilities Workload</b> | <p>The Administration requests \$231,000 and 1.0 two-year limited term position to staff the Charter School Facilities Program. Voter approval of Proposition 55 in March 2004 created a workload necessitating staff and contract resources. One-hundred thirty-one thousand dollars of the total expense will be ongoing.</p> <p>The following budget bill language would be included to facilitate this request:</p> <p><i>Of the amount appropriated in this item, \$100,000 is for the one-time support of external contract consultants who are qualified to provide technical assistance and training in the development of financing programs for charter schools.</i></p>   | <p>EXPENSE:<br/>\$231</p> <p>Charter<br/>School<br/>Facilities<br/>Account</p>  | <b>Adopt the May<br/>Revision<br/>Finance Letter</b>       | BBL         |      |
| 28      | 1730/ Franchise Tax<br>Board                    | <b>Political Reform<br/>Audit Fee</b>         | <p>The Administration requests to change the funding source for the Political Reform Audit (PRA) Program from the General Fund to the new Political Reform Audit Fee Fund. As proposed, the PRA Program will be funded by \$1,442,000 in fees collected from candidates for elected political offices at the state level, as well as lobbyists, lobbying firms, lobbying employers, and certain political committees. The proposed fees will be used to defray the cost of the mandated audits.</p> <p>In the April 28 hearing on this issue, the Subcommittee held this issue open. A number of problems with the bill were voiced, including the likelihood for litigation by affected political committees, individuals, and lobbying agencies.</p> | <p>SAVINGS:<br/>\$1,442<br/>General<br/>Fund</p> <p>(by<br/>establishing<br/>the Political<br/>Reform<br/>Audit Fee<br/>Fund,<br/>otherwise<br/>this is an<br/>EXPENSE)</p> | <b>Reject the<br/>Finance Letter</b>                       | TBL         |      |
| 29      | 1730/ Franchise Tax<br>Board                    | <b>Mandate:<br/>Substandard<br/>Housing</b>   | Revenue and Taxation Code Sections 17274 and 24436.5 provide that if a taxpayer derived rental income from substandard housing, no deduction for interest, taxes, depreciation, or amortization paid in conjunction with substandard housing is allowed.   | (\$0)   | <b>Suspend the<br/>Substandard<br/>Housing<br/>Mandate</b> | TBL         |      |

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**AGENDA #2: State Administration and General Government**

| Issue # | ORG/ DEPT                 | ISSUE  | DESCRIPTION  | DOLLARS<br>(IN 000s)                | STAFF RECO.  | BBL/<br>TBL | VOTE |
|---------|---------------------------|--|--|-------------------------------------|--|-------------|------|
|         |                           |  | <p>The Administration and LAO have recommended this mandate be suspend.</p> <p>At the April 28 hearing on this issue, the Subcommittee requested the policy committee be consulted on impacts of suspending this mandate. The policy committee reported that, understanding that the provisions of the Revenue and Taxation section are still being performed (notwithstanding the currently suspended mandate), there are no known concerns with suspending it for another year.</p>  |                                     |  |             |      |
| 30      | 1730/ Franchise Tax Board | <b>District Office Service Reductions</b>    | <p><b>LAO Issue.</b> The FTB operates 16 field offices throughout the state in order to serve the public. The public access counters at the field offices are the most expensive option available for taxpayer assistance. The FTB has recently taken action to close public access counters at all district offices except for six offices. In the wake of these service reductions, the need for current number of field offices is in question.</p> <p>Subsequent to the April 28 hearing, the FTB reported that expenditures of \$44, 000 in 2004-05, \$821,000 in 2005-06 would lead to \$520,000 in ongoing savings.</p>                                 | EXPENSE:<br>\$44<br>General Fund    | <b>Augment the FTB budget by \$44,000 to implement district office service reductions</b>  |             |      |
| 31      | 1730/ Franchise Tax Board | <b>Fees for Franchise Tax Board Services</b> | <p>The LAO has provided an option that the Legislature adopt language that would allow the FTB charge fees for the services identified below and generate a General Fund savings of approximately \$3.9 million ongoing. These fee proposals are not inconsistent with the fees already charged for similar services by the Internal Revenue Service. Specifically, the LAO recommends the following services be assessed fees installment agreements, tax practitioner hotline, refund stop payment, transcript preparation or computation, lien release or subordination, and rush services.</p> <p>The FTB reported in the earlier hearing that the tax</p> | SAVINGS:<br>\$3,883<br>General Fund | <b>Adopt the LAO recommendations for fees, less the tax practitioner hotline proposal.</b> |             |      |

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**AGENDA #2: State Administration and General Government**

| Issue # | ORG/ DEPT                 | ISSUE              | DESCRIPTION   | DOLLARS<br>(IN 000s)                                   | STAFF RECO.  | BBL/<br>TBL | VOTE |
|---------|---------------------------|--------------------|---|--|--|-------------|------|
|         |                           |                    | <p>practitioner hotline fee proposal may discourage tax compliance by businesses or overburden the other free tax consultation service line.</p> <p><b>Staff Comment.</b> The Department of Finance has recently reported that the IT requirements to conduct the tax amnesty may overtax their system capabilities and hinder them from absorbing the costs associated with the LAO fee proposals. <b>The Subcommittee may wish to request testimony from the FTB on the obstacles and cost to implementing the LAO fee proposal.</b></p> <p><b>The Subcommittee may also wish to request testimony on the revenues to be generated by these proposals in the budget year.</b></p>   |  |  |             |      |
| 32      | 1730/ Franchise Tax Board | <b>Tax Amnesty</b> | <p>The Administration requests that the FTB's budget be increased by \$10,183,000 and 72 positions (all temporary help with the exception of one limited-term position) to administer a personal income and corporate tax amnesty program. The Franchise Tax Board estimates this program would result in additional General Fund revenues of \$185.0 million in 2004-05, a reduction in revenues of \$15.0 million in 2005-06, and revenue gains of \$10.0 million in 2006-07 and \$20.0 million in 2007-08.</p> <p>The amnesty period, would be from February 1, 2005, to March 31, 2005. It would apply to tax years prior to 2003. At the conclusion of the amnesty period, penalties and interest would be increased.</p> <p>This proposal essentially mirrors the provisions of AB 2203 (Chu), discussed in the April 28 Subcommittee hearing.</p> <p>LAO Comment. There are two primary goals in any amnesty: (1) raise additional revenues that would otherwise</p> | SAVINGS<br>(Adjusted):<br>\$174,900<br>General<br>Fund | <b>Adopt the May<br/>Revision<br/>Finance Letter</b> | TBL         |      |

| Issue # | ORG/ DEPT                 | ISSUE                                    | DESCRIPTION   | DOLLARS<br>(IN 000s)   | STAFF RECO.   | BBL/<br>TBL | VOTE |
|---------|---------------------------|--|---|--|---|-------------|------|
|         |                           |  | <p>not materialize, and (2) get additional residents into the tax system and retain them as compliant taxpayers. Although it appears that the proposal would result in some increase in penalties, it is not clear that the Finance Letter proposes anything in particular regarding the second goal--such as targeted auditing, an education campaign, tracking of cases or types of cases, etc. In contrast, during the last amnesty, from 1984-85, the Finance Letter notes that FTB significantly increased the visibility of its enforcement program, added additional enforcement tools, used private collection agencies, publicized property seizures and criminal prosecutions, and used other approaches to address the second goal.</p> <p><b>Staff Comment. The Subcommittee may wish to request testimony regarding the LAO comments. Specifically, the Subcommittee may wish to request testimony on the benefits and costs for a media and marketing campaign.</b></p> |  |   |             |      |
| 33      | 1730/ Franchise Tax Board | <b>Voluntary Compliance Initiative</b>   | <p>As of May 3, 2004, California's latest tax amnesty program, called the Voluntary Compliance Initiative (VCI), generated over \$1.325 billion in revenues from collecting past unpaid tax debts. In the Governor's May Revision \$1.225 billion was scored as VCI revenues. Due to the timing for release the May Revision revenue estimates, \$100 million was not scored.</p> <p><b>Staff Comment. Request testimony on whether and how to score this additional revenue.</b></p>   | SAVINGS:<br>\$100,000<br>General Fund<br>(Prior year adjustment) | <b>Adopt the revised VCI revenue estimate (+\$100 million prior year adjustment).</b> |             |      |
| 34      | 1730/ Franchise Tax Board | <b>Taskforce on Abusive Tax Shelters</b> | The Administration requests that the FTB's General Fund appropriation be increased by \$4,310,000 to provide funding for contracts with tax shelter experts and to backfill 42 audit positions that are being redirected by the FTB to work on abusive tax shelter cases. This augmentation would result in an estimated \$28.0 million General Fund  | SAVINGS:<br>\$23,700<br>(net)<br>General Fund                    | <b>Adopt the May Revision Finance Letter as a replacement to the April</b>            |             |      |

| Issue # | ORG/ DEPT                 | ISSUE  | DESCRIPTION   | DOLLARS<br>(IN 000s)   | STAFF RECO.  | BBL/<br>TBL | VOTE |
|---------|---------------------------|--|---|--|--|-------------|------|
|         |                           |  | <p>revenue increase in 2004-05 and \$390.0 million through 2008-09.</p> <p>The Subcommittee's May 5, 2004, hearing the FTB reported on an unprecedented growth in illegal tax shelters in recent years. The Subcommittee action was to approve a \$400,000 appropriation for combating an abusive tax shelter. This proposal will replace the earlier April Finance Letter.</p>   |  | <b>Finance letter on the same issue.</b>   |             |      |
| 35      | 1730/ Franchise Tax Board | <b>California Child Support Automation System Augmentation</b> | <p>The Administration requests that the FTB funding be increased by \$17,473,000 (\$5,991,000 General Fund and \$11,482,000 Reimbursements) to provide funding for nine positions and for vendor payments in order to continue the CCSAS project Child Support Enforcement component development phase. The vendor payment schedule has been revised to reflect the current anticipated payment dates. Project deliverables have been coming in sooner and better than expected, so the State is incurring these costs earlier than expected. This augmentation does not reflect an increase in total contract cost.</p> <p>LAO Recommendation. The CCSAS project is jointly managed by FTB and the Department of Child Support Services (DCSS). Between the two departments, the Legislature has approved 184 state staff (113 for FTB and 71 for DCSS) to support the project. It appears that both departments are performing similar, if not duplicative, tasks on the project. For this reason, the LAO recommends that the Legislature reduce the request by nine positions and the associated dollars of \$740,000. The remaining funding increase reflects \$16.2 million in contract costs and \$490,000 in wide area network costs.</p> | EXPENSE:<br>\$17,473<br>(\$5,991<br>General<br>Fund,<br>\$11,482<br>reimburse-<br>ments) | <b>Adopt the May Revision Finance Letter, reduced by \$740,000 and nine positions.</b> |             |      |
| 36      | 1730/ Franchise Tax Board | <b>Withholding Income for Independent</b>                      | <b>At the April 28 hearing, the Subcommittee heard an LAO issue relating to</b> closing the "tax gap" (the amount of taxed owed versus the amount of tax actually paid), by   | (\$0)  | <b>Adopt the proposed trailer bill.</b>  | TBL         |      |

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**AGENDA #2: State Administration and General Government**



| Issue # | ORG/ DEPT                 | ISSUE                                  | DESCRIPTION  | DOLLARS<br>(IN 000s)                   | STAFF RECO.                                  | BBL/<br>TBL | VOTE |
|---------|---------------------------|--|--|--|--|-------------|------|
|         |                           | <b>Contractors</b>                     | <p>adding filing and enforcement measures for independent contractors and self-employed individuals.</p> <p>Currently, the Employment Development Department must withhold revenues for tax purposes on most state programs. The Assembly Budget Committee has proposed language that would add filing and enforcement measures to the Employment Development Department's independent contractor reporting program. The trailer bill to make that effective is in Attachment I.</p> <p>The provisions are included to assert penalties for failure to withhold, allow Franchise Tax Board access to the information, and permit the Employment Development Department to develop forms and procedures.</p> <p><b>Staff Comment. The Subcommittee may wish to request comment on the timing and costs related with implementing this proposal.</b></p>                                   |  |  |             |      |
| 37      | 1730/ Franchise Tax Board | <b>Litigation Costs for Hyatt Case</b> | <p>The Administration requests that the FTBs General Fund support item be increased by \$1,334,000 and two limited-term positions to provide funding to defend a lawsuit filed by a taxpayer in the State of Nevada. These funds will pay for Nevada counsel, analytical support, and various related expenses. The State's potential liability in this case is approximately \$200.0 million. The Department of Justice (DOJ) notified the FTB that they will no longer be representing the FTB in this case and granted the FTB permission to retain private counsel. The case is scheduled for trial in Nevada in August 2006 and the estimated cost to the State to defend itself over the next three years is estimated to be \$3.8 million required.</p> <p>Through 2003-04, the DOJ budget has been augmented by nearly \$4.4 million for litigation expenses related to this</p> | EXPENSE:<br>\$1,334<br>General<br>Fund | <b>Adopt the May Revision Finance Letter</b> |             |      |

| Issue # | ORG/ DEPT                            | ISSUE   | DESCRIPTION   | DOLLARS<br>(IN 000s)                       | STAFF RECO.                     | BBL/<br>TBL | VOTE |
|---------|--------------------------------------|---|---|--|---------------------------------|-------------|------|
|         |                                      |   | <p>case.</p> <p>LAO Comment. The Finance Letter indicates that major actions in the case explain the discrepancy between earlier amounts (of \$703,000 in 2002-03 and \$265,000 in 2003-04) and the \$1.3 million.</p> <p><b>Staff Comment. The Subcommittee may wish to request testimony on the basis for the subsequent funding requirements.</b></p>  |  |                                 |             |      |
| 38      | 1760/ Department of General Services | <b>Reversion of Funding for One Local Seismic Project</b>       | <p>The Administration has proposed an April Finance Letter to revert up to \$500,000 in funding authorized by Proposition 122, the Earthquake Safety and Public Building Bond Fund of 1990. A local seismic grant to retrofit an Oakland Police and Administration facility was reappropriated last year. The budget bill language to effect a reversion of the balance in the budget year is as follows:</p> <p><i>1760-495—Reversion, Department of General Services. As of June 30, 2004, the unencumbered balances of the appropriation provided for in the following citation shall revert to the balance of the fund from which it was made:</i></p> <p><i>0768—Earthquake Safety and Public Buildings Rehabilitation Fund of 1990</i></p> <p><i>Item 1760-101-0768, Budget Act of 1994 (Ch. 139, Stats. 1994), as reappropriated by Item 1760-192, Budget Act of 2003 (Ch. 157, Stats. 2003)</i></p> <p><i>(1) 4029-Alameda, Oakland Police and Administration Retrofit – Oakland..... 500,000</i></p> | SAVINGS:<br>Up to \$500<br>General<br>Fund | <b>Adopt the Finance Letter</b> | BBL         |      |
| 39      | 1760/ Department of General Services | <b>Statewide Procurement Training and Certification Program</b> | <p>This was held open from the May 5 hearing. The recommendation at the time was to reduce the DGS budget by \$2 million unless an SRL report on the Statewide Procurement Training and Certification <b>Program</b> was provided. The report has been received.</p>  | SAVINGS:<br>\$2,000                        | <b>No action on this issue.</b> |             |      |

| Issue # | ORG/ DEPT                            | ISSUE   | DESCRIPTION   | DOLLARS<br>(IN 000s)                          | STAFF RECO.  | BBL/<br>TBL | VOTE |
|---------|--------------------------------------|---|---|---|--|-------------|------|
| 40      | 1760/ Department of General Services | <b>Legal Fees for Services Provided by a Private Law Firm</b>     | The DGS budget contains funding for litigation related to the Williams case, a suit filed against the prior Governor and Superintendent for Public Instruction concerning the material condition of certain schools in California. Representation is provided by the Attorney General's Office for the Superintendent and O'Melveny and Myers (a private firm) for the Governor's office. A DGS budget item includes \$3 million in General Fund payments to that firm in 2004-05.  | EXPENSE:<br>\$3,000<br>General Fund           | <b>Approve as budgeted</b>   |             |      |
| 41      | 1760/ Department of General Services | <b>Ongoing Capitol Security Costs</b>                             | The Administration has identified ongoing security costs of \$3 million for the State Capitol. This activity would be funded from the service revolving fund.   | EXPENSE:<br>\$3,000<br>Service Revolving Fund | <b>Approve May Revision Finance Letter</b>                                 |             |      |
| 42      | 1760/ Department of General Services | <b>Capitol Security and Enhancement Projects</b>                  | Funding for capitol security improvements and enhancements in the budget year only. Projects include alarm replacement, closed circuit televisions, security barriers, and a visitor pavilion.  | EXPENSE:<br>\$4,000<br>General Fund           | <b>Approve augmentation.</b>   |             |      |
| 43      | 1760/ Department of General Services | <b>Transfer from the State Emergency Telephone Number Account</b> | <p>The State Emergency Telephone Number Account has been utilized on two previous occasions to provide support to the General Fund during times of fiscal crisis. In 1993-1994, a transfer of \$15 million was made to the General Fund. In 2001-02, pursuant to Control Section 25.10 of 2001-02, the SCO transferred \$63 million from the State Emergency Telephone Account to the General Fund.</p> <p><b>Staff Comment.</b> Based on available revenues, a prudent transfer of \$15 million from the State Emergency Telephone Number to the General Fund may be made.</p> | SAVINGS:<br>\$15,000<br>General Fund          | <b>Adopt the \$15 million transfer to the General Fund</b>                 | BBL         |      |
| 44      | 1760/ Department of General Services | <b>Loan from the State Emergency Telephone Number Account</b>     | At the March 24 hearing, the Subcommittee considered a \$14 million loan from the to the General Fund from the State Emergency Telephone Number Account. The loan would be scheduled for repayment by October 1, 2006. Combined with the \$15 million transfer, the State Emergency Telephone Number Account will have a  | SAVINGS:<br>\$14,000<br>General Fund          | <b>Adopt a \$14 million loan from the State Emergency Telephone Number</b> | BBL         |      |

| Issue # | ORG/ DEPT                            | ISSUE   | DESCRIPTION  | DOLLARS<br>(IN 000s)                    | STAFF RECO.   | BBL/<br>TBL | VOTE |
|---------|--------------------------------------|---|--|---|---|-------------|------|
|         |                                      |   | <p>prudent reserve of \$15 million (approximately 10 percent of expenditures in the budget year) for unforeseen expenses or reduced revenues.</p> <p>To provide additional security against unforeseen fund needs, the following budget bill language should be adopted in a new item 1760-011-0022</p> <p><i>The amount transferred in this item is a loan to the General Fund. This loan shall be repaid with interest calculated at the rate earned by the Pooled Money Investment Account as the time of the transfer. Principal and interest on the loan shall be repaid in full by no later than October 1, 2006. It is the intent of the Legislature that repayment be made so as to ensure that the programs supported by this fund are not adversely affected by the loan through reduction in service or increased fees.</i></p>   |   | <b>Account</b>  |             |      |
| 45      | 1760/ Department of General Services | <b>Loan from the Public School Planning, Design, and Construction Review Revolving Fund</b> | <p>At the March 24, 2004, hearing the Subcommittee considered extending for one year a \$35 million loan from this account to the General Fund. The currently scheduled repayment date is October 1, 2004. No significant programmatic impacts have been identified with delaying repayment for one year.</p> <p>To provide additional security against unforeseen fund needs, the following budget bill language should be adopted in a new item 1760-011-0328.</p> <p><i>The amount transferred in this item is a loan to the General Fund. This loan shall be repaid with interest calculated at the rate earned by the Pooled Money Investment Account as the time of the transfer. Principal and interest on the loan shall be repaid in full by no later than October 1, 2005. It is the intent of the Legislature that repayment be made so as to ensure that the programs supported by this fund are</i></p> | SAVINGS:<br>\$35,000<br>General<br>Fund | <b>Extend the loan from the Public School Planning, Design, and Construction Review Revolving Fund for one year</b> | BBL         |      |

| Issue # | ORG/ DEPT                            | ISSUE   | DESCRIPTION  | DOLLARS<br>(IN 000s)                     | STAFF RECO.   | BBL/<br>TBL | VOTE |
|---------|--------------------------------------|---|--|--|---|-------------|------|
|         |                                      |   | <i>not adversely affected by the loan through reduction in service or increased fees.</i>  |  |   |             |      |
| 46      | 1760/ Department of General Services | <b>Loan from the Disability Access Account</b>        | <p>At the March 24, 2004, hearing the Subcommittee considered extending for one year a \$10 million loan from this account to the General Fund. The currently scheduled repayment date is October 1, 2004. No significant programmatic impacts have been identified with delaying repayment for one year.</p> <p>To provide additional security against unforeseen fund needs, the following budget bill language should be adopted in a new item 1760-011-0006.</p> <p><i>The amount transferred in this item is a loan to the General Fund. This loan shall be repaid with interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer. Principal and interest on the loan shall be repaid in full no later than October 1, 2005. It is the intent of the Legislature that repayment be made so as to ensure that the programs supported by this fund are not adversely affected by the loan through reduction in service or increased fees.</i></p> | SAVINGS:<br>\$10,000<br>General Fund     | <b>Extend the \$10 million loan from the Disability Access Account for one year</b> | BBL         |      |
| 47      | 1880/ State Personnel Board          | <b>Augmentation of Reimbursable Resources</b>         | The Administration requests that the State Personnel Board's main item be amended by increasing reimbursements by \$549,000. This proposal will add 5.5 positions to address workload issues in various programs operated by the State Personnel Board.  | EXPENSE:<br>\$549<br>Reimburse-<br>ments | <b>Adopt the May Revision Finance Letter</b>  |             |      |
| 48      | 1880/ State Personnel Board          | <b>Budget Change Proposal: General Fund Reduction</b> | <p>The Administration proposes a \$600,000 General Fund reduction to staffing and operating expenses related to merit appeals, examination services, bilingual services, and information technology services.</p> <p>At the May 5th hearing on this issue, the Subcommittee opted to hold this issue open, pending a recommendation from the California Performance Review (CPR) and the</p>   | SAVINGS:<br>\$600<br>General Fund        | <b>Approve the Budget Change Proposal</b>   |             |      |

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**AGENDA #2: State Administration and General Government**

| Issue # | ORG/ DEPT                                 | ISSUE                                       | DESCRIPTION   | DOLLARS<br>(IN 000s)                 | STAFF RECO.  | BBL/<br>TBL | VOTE |
|---------|---|---|---|--------------------------------------|--|-------------|------|
|         |   |   | <p>updated General Fund shortfall information presented in the May Revise. The CPR has provided no recommendations on this issue.</p> <p><b>Staff Comment.</b> Considered alongside the “Augmentation of Reimbursable Resources” issue above, this reduction appears consistent with a broadened perspective on staffing the SPB.</p>   |                                      |  |             |      |
| 49      | 8620/ Fair Political Practices Commission | <b>Funding Reduction BCP</b>                | <p>The Governor’s Budget includes a \$809,000 reduction to the FPPC’s non-statutory funding. This proposal would result in position reductions to legal council (1.5 positions) and political reform consultants (1-2 positions), elimination of the public outreach program, reduced local law enforcement activities, and other administrative reductions.</p> <p><b>Staff Comment.</b> The Governor’s Budget proposed reduction appears inconsistent with state entities of similar size. As an alternative to a \$809,000 reduction the Subcommittee may wish adopt a \$500,00 reduction. The FPPC has indicated that the lower reduction is supportable and will enable them to meet their statutory and constitutional obligations.</p> | EXPENSE:<br>\$309<br>General<br>Fund | <b>Restore<br/>\$309,000 to the<br/>FPPC budget</b>  |             |      |
| 50      | 8620/ Fair Political Practices Commission | <b>Three Percent General Fund Reduction</b> | <p>Through a budget letter directive the Department of Finance directed each agency and state organization without agency representation to prepare a three-percent ongoing expenditure reduction plan.</p> <p>The Administration is proposing to reduce Item 8620-001-0001 by \$171,000 General Fund to reflect the elimination of one position, a time base reduction of one counsel position, and reduced operating expense.</p> <p><b>Staff Comment: The Subcommittee may wish to request testimony on the impact of this proposal on</b></p>   | SAVINGS:<br>\$171<br>General<br>Fund | <b>Adopt the May<br/>Revision<br/>Finance Letter</b> |             |      |

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**AGENDA #2: State Administration and General Government**

| Issue # | ORG/ DEPT                           | ISSUE   | DESCRIPTION   | DOLLARS<br>(IN 000s)                | STAFF RECO.   | BBL/<br>TBL | VOTE |
|---------|-------------------------------------|---|---|-------------------------------------|---|-------------|------|
|         |                                     |   | <p><b>the FPPC's constitutional obligations.</b> The budget letter requiring state entities to prepare three percent reduction plans stipulates that Constitutionally required functions are not automatically exempted from this budget exercise—to the extent that a reduced level of funding can be supported.</p> <p><b>The Subcommittee may further wish to request the Department of Finance report on the rationale and number of departments that are recommended for three percent reductions.</b></p>   |                                     |   |             |      |
| 51      | 8640/ Political Reform Act of 1974. | <b>Political Reform Audit Fund, Corresponding Budget Line Item</b>        | <p>This budget item requires the Department of Finance, in preparing the state budget to include an item for the support costs of the Act that includes the additional amounts to be appropriated to other state agencies to carry out their duties under the Act.</p> <p><b>Staff Comment.</b> Consistent with the recommendation to deny the Political Reform Audit Fee proposal, this item must be augmented by \$1,300,000 to show the restored General Fund commitment to the Franchise Tax Board for PRA services.</p>  | EXPENSE:<br>\$1,300<br>General Fund | <b>Restore \$1,300 to the PRA item. (Increase Item 8640-001-0001 by \$1.3 million)</b>                              |             |      |
| 52      | 8855/ Bureau of State Audits        | <b>Transfer a Portion of Excess Reserve Funds in the State Audit Fund</b> | <p>The Bureau of State Audits (BSA) provides audits of the programs and fiscal operations of state government. Through financial, performance, and investigative audits, as well as other special studies, the State Auditor provides the Legislature, Governor, Milton Marks Commission on California State Government ("Little Hoover Commission"), and the citizens of California with objective information about the state's financial condition and the performance of state agencies and programs. The BSA was created by the enactment of Chapter 12, Statutes of 1993 (SB 37).</p> <p>General statewide practice for special funds is to maintain a total reserve of approximately five percent. For 2004-</p> | SAVINGS:<br>\$1,105<br>General Fund | <b>Approve the BSA budget (as budgeted) and transfer \$1,105,000 from the State Audit Fund to the General Fund.</b> |             |      |

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**AGENDA #2: State Administration and General Government**

| Issue # | ORG/ DEPT                                | ISSUE  | DESCRIPTION   | DOLLARS<br>(IN 000s)                  | STAFF RECO.                                    | BBL/<br>TBL | VOTE |
|---------|--|--|---|---------------------------------------|--|-------------|------|
|         |  |  | <p>05, a five percent reserve in the State Audit Fund would be \$620,000.</p> <p><b>Staff Comment.</b> The BSA has never tapped their reserve close to or in excess of the proposed five percent level (\$620,000). If that were to happen, legislative processes exist to provide funding for unanticipated expenses (e.g. the deficiency process). In recent years the BSA has actually reverted several hundred thousand dollars each year because it could not be spent.</p>  |                                       |  |             |      |
| 53      | 8910/<br>Office of<br>Administrative Law | <b>LAO Option – Eliminate the Office of Administrative Law, a savings of \$1.8 million in General Fund</b> | <p>As part of the LAO's "Additional Options" list for General Fund expenditure reductions, the LAO provides an option that the Subcommittee eliminate the OAL.</p> <p>It is not evident that the OAL activities suggested for elimination or consolidation would achieve the same level of service if provided by other agencies.</p>   | SAVINGS:<br>\$1800<br>General<br>Fund | <b>Reject the LAO Option</b>                   |             |      |
| 54      | 8910/<br>Office of<br>Administrative Law | <b>Determinations and Compliance Workload</b>  | <p>The Administration requests that Item the OAL's General Fund appropriation be increased by \$605,000 and 7.0 positions, on a two-year limited term basis, to address increased Determinations and Regulations Compliance workload. This augmentation will provide the department with the resources to implement the provisions of the Executive Order S-02-03.</p> <p><b>Staff Comment.</b> This proposal stems from an executive order seeking to address inconsistencies by state agencies and departments in adopting formal regulations and other state rules. While the concept appears laudable, workload is uncertain. The LAO has not reviewed the OAL's documents to determine if any additional actions are necessary. Any identifiable workload will have been created by an executive order, not a program approved by the Legislature.</p> | EXPENSE:<br>\$605<br>General<br>Fund  | <b>Reject the May Revision Finance Letter.</b> |             |      |
| 55      | 9100/ Tax Relief                         | <b>Elimination of the</b>  | A related issue, the mandate requiring locals to report to  | SAVINGS:                              | <b>Eliminate the</b>                           |             |      |



| Issue # | ORG/ DEPT                        | ISSUE  | DESCRIPTION   | DOLLARS<br>(IN 000s)                     | STAFF RECO.                            | BBL/<br>TBL | VOTE |
|---------|----------------------------------|--|---|--|--|-------------|------|
|         |                                  | <b>Substandard Housing Program</b>   | the state the amount withheld from a taxpayer who owns substandard housing, was addressed by the Subcommittee on April 28. (This mandate falls under the Franchise Tax Board budget.) The FTB reported that in the last three years the mandate has been suspended, they have not encountered difficulty in gaining compliance from locals.   | \$44<br>General<br>Fund                  | <b>substandard housing subvention.</b> |             |      |
| 56      | 9210/ Local Government Financing | <b>Eliminate Citizens' Option for Public Safety (COPS) Grant Program</b>                   | As part of the LAO's "Additional Options" list for General Fund expenditure reductions, the LAO notes that the COPS program provides grants to local law enforcement mostly for personnel and equipment. Given that COPS funding represents less than 1 percent of local law enforcement expenditures, its impact on public safety, if any, is likely to be relatively small. Anticipated savings from eliminating this program is \$100 million General Fund.<br><br>This issue was heard and left open at the May 5, 2004 Subcommittee hearing.   | SAVINGS:<br>\$100,000<br>General<br>Fund | <b>Reject the LAO Option</b>           |             |      |
| 57      | 9210/ Local Government Financing | <b>Suspend the Juvenile Justice Grants Program for one year Pending Evaluation Results</b> | As part of the LAO's "Additional Options" list for General Fund expenditure reductions, the LAO notes that the Juvenile Justice grants provide funds to address service gaps in county juvenile justice systems. This option would suspend funding for one year pending evaluations currently underway. Suspension would not stop the programs because grant recipients receive funding one year in advance of projected expenditures. Anticipated savings from this proposal is \$100 million General Fund.<br><br>This issue was heard and left open at the May 5, 2004 Subcommittee hearing. | SAVINGS:<br>\$100,000<br>General<br>Fund | <b>Reject the LAO Option</b>           |             |      |
| 58      | 9210/ Local Government Financing | <b>Special Supplemental Subvention Elimination</b>   | The Administration reports that the Special Supplemental Subvention for redevelopment agencies was vetoed in the current year and was not proposed for funding in the budget year. However, Government Code Section 16100 provides for a continuous appropriation from the State General Fund for the subvention. Accordingly, the State  | (\$0)                                    | <b>Adopt the proposed trailer bill</b> | TBL         |      |

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**AGENDA #2: State Administration and General Government**

| Issue # | ORG/ DEPT                        | ISSUE                                 | DESCRIPTION  | DOLLARS<br>(IN 000s)            | STAFF RECO.                                   | BBL/<br>TBL | VOTE |
|---------|----------------------------------|---------------------------------------|--|---------------------------------|---|-------------|------|
|         |                                  |                                       | <p>Controller's Office has paid \$357,242 in claims in the current year. The following trailer bill language will be introduced to eliminate the statutory authority for the subvention.</p> <p><i>Section 1. Eliminate Chapter 1.5 of Part 1 of Division 4 of Title 2 of the Government Code.</i></p> <p><i>Section 2. This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the Constitution and shall go into immediate effect. The facts constituting the necessity are: In order to implement the Budget Act of 2004, it is necessary that this act take effect immediately.</i></p>   |                                 |   |             |      |
| 59      | 9210/ Local Government Financing | <b>Reimbursement for Booking Fees</b> | <p>The Governor's Budget proposes to eliminate booking fee subventions to cities in 2004-05, along with counties' authority to charge booking fees to cities. Current law continuously appropriates \$38.2 million annually for these subventions. The Administration seeks passage of AB 1749 (Assembly Committee on Budget) to repeal the counties authority to charge and the continuous appropriation.</p> <p>LAO Recommendation. County authority to impose booking fees gives local agencies incentives to use county booking and detention services wisely and efficiently. Eliminating this incentive likely would result in significant increases to county costs, without any identifiable gain to public safety. Accordingly, the LAO recommends the Legislature maintain county authority to impose booking fees.</p> <p><b>Staff Comment.</b> The questions raised in the May 5, 2004, hearing as to who may be the true beneficiaries of booking</p> | EXPENSE:<br>\$1<br>General Fund | <b>Fund the Booking subventions at \$1000</b> | TBL         |      |

| Issue # | ORG/ DEPT                                       | ISSUE   | DESCRIPTION   | DOLLARS<br>(IN 000s)   | STAFF RECO.   | BBL/<br>TBL | VOTE |
|---------|---|---|---|--|---|-------------|------|
|         |   |   | fee subventions, as well as the important public policy goals behind their existence, suggests that the booking fees issue merits further consideration.  |  |   |             |      |
| 60      | 9210/ Local Government Financing                | <b>MANDATE: Open Meetings Act</b>   | <p>This mandate requires local agencies and legislative bodies to post a single agenda containing a brief description of items to be heard, and specifying the time and location of the meeting.</p> <p>This mandate is proposed for deferral in the budget year.</p> <p>At the May 5, 2004, Subcommittee hearing on this issue, the Subcommittee requested the LAO and DOF report back on the costs associated with this mandate and the policy implications of deferring the open meetings act mandate.</p> | (\$0)  | <b>Defer the Open Meetings Act mandate (i.e. approve as budgeted)</b> |             |      |
| 61      | 9210/ Local Government Financing                | <b>MANDATE: Brown Act Reform</b>  | <p>This mandate requires agenda postings by local advisory bodies and the disclosure of matters discussed in executive sessions</p> <p>This mandate is proposed for deferral in the budget year.</p> <p>At the May 5, 2004, Subcommittee hearing on this issue, the Subcommittee requested the LAO and DOF report back on the costs associated with this mandate and the policy implications of repealing or deferring the Brown Act mandate.</p>   | (\$0)  | <b>Defer the Brown Act mandate (i.e. approve as budgeted)</b>         |             |      |
| 62      | 9901/ Contract Savings for Control Section 5.50 | <b>Erosion of Ongoing Savings Related to Control Section 5.50 of the 2003-04 Budget Act</b> | The Budget Act of 2003 required that the Department of General Services renegotiate contracts using entrepreneurial practices with the goal of achieving ongoing savings beginning in current year. The Administration now acknowledges that these savings were not attainable due to overlapping savings generated through other reductions (e.g. Control Section 4.10).   | <p>EXPENSE:<br/>\$100,000</p> <p>(\$50,000 General Fund,<br/>\$25,000 special funds,<br/>\$25,000 nongovernmental cost</p> | <b>Adopt May Revise Finance Letter</b>                                |             |      |

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**AGENDA #2: State Administration and General Government**

| Issue # | ORG/ DEPT                                     | ISSUE   | DESCRIPTION  | DOLLARS<br>(IN 000s)     | STAFF RECO.   | BBL/<br>TBL | VOTE |
|---------|---|---|--|--------------------------|---|-------------|------|
|         |   |   |  | funds)                   |   |             |      |
| 63      | 9916/Reform of Real Property Asset Management | <b>Statewide Reform of Real Property Assets and Increased Revenue from the Sale of Surplus Property</b> | <p>The Administration has expressed concern with the current asset augmentation structures and processes. With the dual goals of improving the state's management of real property assets and increasing revenue from the sale of property, the Administration requests trailer bill language to broaden the specifications of when and how state property may be sold and consolidate asset management in the Public Works Board. This trailer bill includes provisions to eliminate requirements that the state offer surplus property to local governments prior to public sale and that the state sell surplus property to local governments for less than market value under certain circumstances</p> <p>The Administration also requests \$2.8 million to support the real property asset management proposal. Support activities will include data entry of the state property inventory, administrative actions for the Public Works Board, and costs for disposing of high-value surplus property to be identified later.</p> <p>The following budget bill language would give the Department of Finance authority to allocate these funds in order to implement asset property reforms:</p> <p><i>The funds appropriated in this item shall be allocated by the Department of Finance to state agencies for activities associated with the implementation of statewide real property asset management reforms.</i></p> <p>The Governor recently issued an executive order (S-10-04) to implement most of the information gathering and programmatic review activities identified in this proposal.</p> <p><b>Staff Comment.</b></p> | \$50,000<br>General Fund | <p><b>1. Reject the \$2.8 million budget item and budget language,</b></p> <p><b>2. Adopt the May Revision Revenue Estimate,</b></p> <p><b>3. Refer the TBL to the policy committee</b></p> | BBL,<br>TBL |      |

| Issue # | ORG/ DEPT            | ISSUE                          | DESCRIPTION   | DOLLARS<br>(IN 000s)                    | STAFF RECO.   | BBL/<br>TBL | VOTE |
|---------|----------------------|--------------------------------|---|---|---|-------------|------|
|         |                      |                                | <p>The \$2.8 million request for resources to complete the previously described activities has not been substantiated with workload data or a formal support request.</p> <p>The expansion of authority for the Administration to sell off state properties raises concerns that important capital assets may be lost. The State plays a valuable role in asset protection that the private sector would otherwise fail. Additionally, any review for disposable capital assets should consider the state costs if the property is sold prematurely. Selling properties without considering the long-term needs of the state can result in significant expense if the property must be re-purchased.</p> <p>Notwithstanding these concerns, it appears that the \$50 million figure may be reachable after revisions to the trailer bill and budget bill are made. Staff recommends the trailer bill be referred to the policy committee.</p> |   |   |             |      |
| 64      | Control Section 4.10 | <b>\$150 million Reduction</b> | <p>The Department of Finance requests to include an adjustment to proposed expenditures to reflect one-time reductions totaling \$150 million in the budget year. Control Section 4.10 (see Attachment K) would be added to authorize the Director of Finance, in consultation with Agency Secretaries where applicable, to reduce General Fund appropriations by that amount.</p> <p>The same level of reduction, mostly confined to personal services expenses, was attempted in the current year. It was not successful.</p> <p>LAO Comment. The current year reductions, as well as those proposed would reflect Administration's—not the Legislature's—priorities. Any unallocated reduction authority given to the administration will expose legislative priorities to reductions.. In order to protect its own priorities,</p>  | SAVINGS<br>\$150,000<br>General<br>Fund | <p><b>Adopt the revenue estimate and reject the Administration's proposed budget bill language.</b></p> <p><b>Adopt the intent language recommended by staff.</b></p> | BBL         |      |

| Issue # | ORG/ DEPT   | ISSUE  | DESCRIPTION   | DOLLARS<br>(IN 000s) | STAFF RECO.   | BBL/<br>TBL | VOTE |
|---------|---|--|---|----------------------|---|-------------|------|
|         |   |  | <p>the Legislature would need to identify specific lower priority reductions during the budget process—rather than relying on unallocated reductions. While the full programmatic impact of the Control Section 4.10 reductions may not be known for some time, it is likely that many of the reductions will have been made to programs of particular interest to the Legislature.</p> <p>Staff Comment. While the prospect of reducing state expenses to generate \$150 million in one-time savings appears feasible, the budget bill language raises many concerns. Staff recommends the budget bill language be rejected and the following added:</p> <p><i>It is the intent of the Legislature to adjust General Fund appropriations in order to generate savings for the state.</i></p> |                      |   |             |      |
| 65      | Control Section 4.30/ Lease Revenue Payment Adjustments | <b>Amendment to reduce ambiguity in Control Section 4.30</b>   | <p>Legislative Counsel has recommended that subsection (c) be revised to add the word “any” to clarify that the Legislature be provided sufficient notification regarding Lease Revenue Payment Adjustments. Without this clarification, the notification requirements to the Legislature could potentially be limited.</p> <p><i>Within 30 days of making <u>any</u> adjustments...</i></p>  | (\$0)                | <b>Adopt the budget bill amendment.</b>   | BBL         |      |
| 66      | Control Section 4.35 (Proposed)                         | <b>Identification and Transfer of Administration Positions</b> | <p>Control Section 4.35 is proposed to require the Department of Finance to identify positions loaned to the Office of the Governor from other departments, transfer the positions to the Office of the Governor (where the individuals are currently working) and any General Fund associated with the positions. The Department of Finance would then make the appropriate Special Fund and General Fund adjustments to the budgets of the loaning departments for those positions.</p> <p>The Department of Finance has indicated that there are approximately 100 such positions that would be impacted.</p>  | (\$0)                | <b>Adopt the May Revision Finance Letter and appropriate the amount necessary to pay for the positions that will be paid for out of General Fund.</b> | BBL         |      |

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**AGENDA #2: State Administration and General Government**

| Issue # | ORG/ DEPT                          | ISSUE   | DESCRIPTION   | DOLLARS<br>(IN 000s) | STAFF RECO.   | BBL/<br>TBL | VOTE |
|---------|------------------------------------|---|---|----------------------|---|-------------|------|
|         |                                    |   | <p>As an alternative to several BCPs deleting the positions from other departments and increasing them in the Governor's Office, this Control Section allows Finance to correct the problem through a statewide action.</p> <p>Budget bill language (see Attachment L) would allow the Department of Finance to provide an augmentation to the Office of the Governor for the positions transferred from departments where the positions are currently paid for by special funds.</p> <p>Staff Comment. By correcting the actual fund assignments a General Fund commitment will be created. This is because many of the Governor's staff are currently special funded and when transferred to the Governor's office they will be funded from the General Fund. <b>In order to preclude a deficiency request (which are specifically for <i>unanticipated</i> expenses), the Subcommittee may wish to request testimony on an estimate of the amount of General Fund needed to pay for these positions in the budget year and then appropriate that amount.</b></p> |                      |   |             |      |
| 67      | Control Section 4.45<br>(Proposed) | <b>Transfer of<br/>Appropriation<br/>Authority for<br/>Governor's Budget<br/>Printing</b> | <p>The Department of General Services (DGS) budget currently includes spending authority to pay for the printing of the Governor's Budget. The proposed Control Section 4.45 will allow the transfer of appropriation authority from DGS to the Department of Finance to pay for the costs associated with producing the Governor's Budget through electronic or other media.</p> <p><b>Staff Comment.</b> The Administration has generated small savings by not providing printed versions of the 2003-04 Governor's Budget outside of the Department of Finance. It is unclear that those savings outweigh the decentralized printing costs and efficiency losses caused by this change.</p>  | (\$0)                | <b>Reject the May<br/>Revision<br/>Finance Letter</b> | BBL         |      |

| Issue # | ORG/ DEPT  | ISSUE  | DESCRIPTION  | DOLLARS<br>(IN 000s)                 | STAFF RECO.  | BBL/<br>TBL | VOTE |
|---------|--|--|--|--------------------------------------|--|-------------|------|
| 68      | Control Section 4.60<br>(Revised)                  | <b>Revised Rental Rates Control Section</b>    | <p>The Administration requests to revise Control Section 4.60, Rental Rates, to include the ability to adjust any item of appropriation to fund costs associated with debt service, rent, or operations and maintenance of any space occupied by a state entity. The effect of this proposal can be found in Attachment M.</p> <p>This budget bill language is expected to facilitate the discovery of alternatives to the current rental rate system by assembling a report on the current system. The Department of Finance has included a reporting requirement so that the Legislature will have an opportunity to review these findings.</p>                  | (\$0)                                | <b>Adopt the Revised Control Section Language.</b> | BBL         |      |
| 69      | Control Section 12.00 / State Appropriations Limit | <b>Updated Estimate</b>                        | <p>Pursuant to Article XIII B of the California Constitution, the 2004-05 is estimated to be \$64.588 billion. The revised limit is the result of applying the growth factor of 4.60 percent. The revised 2004-05 limit is \$611 million above the \$63.977 billion estimated in January.</p> <p>Because state revenues are still subject to updating, it is necessary that SAL be finalized in conference. Accordingly, this item should be reduced by \$1000.</p>  | \$64,558,000                         | <b>Reduce the SAL estimate by \$1000.</b>          |             |      |
| 70      | Control Section 33.50 (Proposed)                   | <b>“Strategic Sourcing” Procurement Reform</b> | <p>The Administration proposes budget bill language to allow the Director of the Department of Finance to reduce departmental budgets to the extent that savings are achieved through a “strategic sourcing.” Strategic sourcing would establish a performance based contract with a private sector entity that will improve the state’s capacity to buy in bulk. The Budget bill language is as follows:</p> <p><i>The Director of Finance shall provide to the Legislature an implementation timeline for this Section which should include, but is not limited to a report of proposed savings resulting from Strategic Sourcing. This report is due at</i></p> | SAVINGS:<br>\$96,000<br>General Fund | <b>Adopt the May Revision Finance Letter</b>       | BBL         |      |



| Issue # | ORG/ DEPT                        | ISSUE  | DESCRIPTION   | DOLLARS<br>(IN 000s)                  | STAFF RECO.   | BBL/<br>TBL | VOTE |
|---------|----------------------------------|--|---|---------------------------------------|---|-------------|------|
|         |                                  |  | <p><i>least 30 days prior to the implementation of this Section. Notwithstanding any other provision of law, the Director of Finance is authorized to reduce amounts in items of appropriation for the 2004-05 fiscal year to the extent that savings are achieved through Strategic Sourcing.</i></p> <p>The proposed control section is similar to the current year Control Section 5.50 which proposed savings of \$100 million (see issue above), resulting from renegotiating existing contracts and leases. These savings were not achieved.</p> <p>LAO Comment. The proposed control section does allow DOF to reduce department appropriations if any savings are achieved. For that reason, we see no harm in adopting the new control section. Assuming no savings from the control section, however, would be a more realistic projection and eliminate the likelihood of a future hole in the budget.</p> <p><b>Staff Comment.</b> Staff understands that a performance based contract will be used to generate these savings. Given the state's relative inexperience with such contracts, it is uncertain that such an arrangement will facilitate the state meeting its \$96 million revenue target.</p> |                                       |   |             |      |
| 71      | Control Section 34.50 (Proposed) | <b>Punitive Damages: Split-Award Tort Reform</b> | <p>The Administration requests to establish Control Section 34.50 to allow funding received into the new Public Benefit Trust Fund to offset 2004-05 General Fund expenditures. The intent of this section is to authorize the Department of Finance to reimburse programs funded by the General Fund with moneys in the Public Benefit Trust Fund, under specified circumstances. The budget bill language is as follows:</p> <p><i>Control Section 34.50 Public Benefit Trust Fund</i></p>  | SAVINGS:<br>\$450,000<br>General Fund | <b>1. Adopt the budget bill language proposed by staff and score the May Revision Finance Letter savings.</b> | BBL, TBL    |      |

| Issue # | ORG/ DEPT | ISSUE | DESCRIPTION  | DOLLARS<br>(IN 000s) | STAFF RECO.  | BBL/<br>TBL | VOTE |
|---------|-----------|-------|--|----------------------|--|-------------|------|
|         |           |       | <p><i>Sec. 34.50 (a) Notwithstanding any other provision of law, the Department of Finance is authorized to reimburse 2004-05 General Fund expenditures from the balance in the Public Benefit Trust Fund. The total reimbursement will be up to the amount available in the Public Benefit Trust Fund.</i></p> <p><i>(b) This reimbursement will result in overall General Fund savings. It is not the intent of the Section to provide additional expenditure authority to State programs.</i></p> <p>Trailer bill language to create the Public Benefit Trust Fund and amend existing law related to punitive damages is also proposed. This language would provide that 75 percent of punitive damage awards would be deposited into the Public Benefit Trust Fund and appropriated annually for purposes consistent with the nature of the award. The proposed trailer bill language is found in Attachment N.</p> <p>This proposal raises a number of practical and public policy concerns.</p> <ul style="list-style-type: none"> <li>• Most punitive damage cases, after awards are made, are negotiated down to a lesser amount and classified something other than punitive.</li> <li>• The \$6.4 billion calculation of punitive awards over ten years is heavily skewed by outlier data. Most notably, \$4.2 billion of the \$6.4 billion is based on one case.</li> <li>• The budget bill language limits the number of times punitive damages may be applied in a case dealing with product liability, potentially undermining both state revenue and a plaintiff's right to trial.</li> <li>• Many punitive damage cases involve confidential awards. It's unclear how the state would take from such cases.</li> </ul> |                      | 2. Submit the trailer bill to policy committee(s) for further consideration. |             |      |

| Issue # | ORG/ DEPT | ISSUE  | DESCRIPTION  | DOLLARS<br>(IN 000s) | STAFF RECO.   | BBL/<br>TBL | VOTE |
|---------|-----------|--|--|----------------------|---|-------------|------|
|         |           |  | <p>Staff Comment. <b>The Subcommittee may wish to request the Administration respond to these concerns.</b></p> <p>Notwithstanding these obstacles to implementation, other states have been appropriating punitive damage awards, and it is conceivable that statutes can be rewritten to facilitate revenue collections by the state. Staff recommends the following intent language to enable these processes:<br/> <i>It is the intent of the Legislature to review proposals and address the issue of apportioning some portion of punitive damage awards to the state.</i></p> |                      |   |             |      |
| 72      | Mandates  | <b>Conforming action for mandates recommended for repeal</b> | <p>Due to uncertainties about the timing of budget enactment, it is recommended that the Subcommittee vote to reflect in the budget bill all mandates recommended for repeal as “suspended.” This is necessary because in previous years when lags between when the mandates policy bill was enacted and the budget was enacted. In some cases, mandates that were actually repealed have actually been funded in the budget.</p> <p>The Assembly has adopted this action.</p>   | (\$0)                | <b>Reflect all mandates recommended for repeal as “suspended” in the budget bill.</b> |             |      |



## ATTACHMENT A

### TRAILER BILL LANGUAGE HUMAN RESOURCE MANAGEMENT SYSTEM—21<sup>ST</sup> CENTURY PROJECT

*SEC. 1. (a) The Legislature hereby finds and declares that it is essential for the State to replace the current automated human resource/payroll systems operated by the Controller to ensure that State employees continue to be paid accurately and on time and that the State may take advantage of new capabilities and improved business practices. To achieve this replacement of the current systems, the Controller is authorized to procure, modify, and implement a new human resource management system that meets the needs of a modern State government. This replacement effort is called the 21<sup>st</sup> Century Project.*

*(b) Notwithstanding any other provision of law, beginning with the 2004-05 fiscal year, the State Controller is hereby authorized to assess special and non-governmental cost funds in sufficient amounts to pay for the authorized 21<sup>st</sup> Century Project costs that are attributable to such funds. Assessments in support of the expenditures for the 21<sup>st</sup> Century Project shall be made quarterly, and the total amount assessed from these funds annually may not exceed the total expenditures incurred by the State Controller for the 21<sup>st</sup> Century Project that are attributable to such funds in that fiscal year. Appropriations will be made in the annual Budget Act.*

*(c) To the extent permitted by law, beginning with the 2004-05 fiscal year, the Controller shall establish agreements with various agencies/departments for the collection of federal funds from those agencies/departments in sufficient amounts to pay for the authorized 21<sup>st</sup> Century Project costs that are attributable to federal funds. The total amount collected from those agencies/departments annually may not exceed the total expenditures incurred by the State Controller for the 21<sup>st</sup> Century Project that are attributable to federal funds in that fiscal year. Appropriations will be made in the annual Budget Act.*

*(d) This section shall be operative through June 30, 2011.*

*(e) This act is an urgency statute necessary for the immediate preservation of the public peace, health or safety within the meaning of Article IV of the Constitution and shall go into immediate effect.*

## ATTACHMENT B

### Proposed Control Section 25.25

*SEC. 25.25. Notwithstanding any other provision of law, up to two million, five hundred twenty thousand dollars (\$2,520,000) is hereby appropriated from various special and nongovernmental cost funds to the State Controller for payment of costs to support the replacement of the existing automated human resource/payroll systems (the 21<sup>st</sup> Century Project). The Controller shall assess these funds in sufficient amounts to pay for the authorized 21<sup>st</sup> Century Project costs that are attributable to such funds pursuant to legislation enacted during the 2003-2004 legislative session. Assessments in support of the expenditures for the 21<sup>st</sup> Century Project shall be made quarterly, and the total amount assessed from these funds in 2004-05 may not exceed the total expenditures incurred by the State Controller for the 21<sup>st</sup> Century Project that are attributable to such funds in the 2004-05 fiscal year.*

## ATTACHMENT C

### Trailer Bill for Closure of an Improper Tax Loopholes: The 90-day Rule for Vehicles, Vessels, and Aircraft

SECTION 1. Section 6248 of the Revenue and Taxation Code is amended to read:

6248. (a) On and after the effective date of this section there shall be a rebuttable presumption that any vehicle, vessel, or aircraft bought outside of this state, was acquired for storage, use, or other consumption in this state and is subject to use tax if any of the following occur:

- (1) The vehicle, vessel, or aircraft was purchased by a California resident as defined in Section 516 of the Vehicle Code.
- (2) In the case of a vehicle, the vehicle was subject to registration under Chapter 1 (commencing with Section 4000) of Division 3 of the Vehicle Code during the first 12 months of ownership.
- (3) In the case of a vessel or aircraft, the vessel or aircraft was subject to property tax in this state during the first 12 months of ownership.
- (4) The vehicle, vessel, or aircraft was used or stored in this state more than one-half of the time during the first 12 months of ownership.

(b) This presumption may be controverted by documentary evidence that the vehicle, vessel, or aircraft was purchased for use outside of this state during the first 12 months of ownership that shall include, but not be limited to, evidence of registration of that vehicle, vessel, or aircraft with the proper authority outside of this state.

(c) This section does not apply to any vehicle, vessel, or aircraft used in interstate or foreign commerce pursuant to regulations prescribed by the board.

(d) *The amendments made to this section by the act adding this subdivision do not apply to any vehicle, vessel, or aircraft purchased on or before the operative date of the act adding this subdivision, or to any vehicle, vessel, or aircraft that is the subject of a binding purchase contract entered into on or before the operative date of the act adding this subdivision.*

(e) (1) Notwithstanding subdivision (a), aircraft brought into this state for the purpose of repair, retrofit, or modification shall not be deemed to be acquired for storage, use, or other consumption in this state.

(2) This subdivision does not apply if, during the period following the time the aircraft was brought into this state and ending when the repair, retrofit, or modification of the aircraft is complete, more than 25 hours of airtime are logged on the aircraft by the registered owner of that aircraft or by an agent operating that aircraft on behalf of the registered owner. The calculation of airtime logged on the aircraft does not include airtime following the completion of the repair, retrofit, or modification of the aircraft that is logged for the sole purpose of returning or delivering the aircraft to a point outside of this state.

(3) This subdivision applies to aircraft brought into this state, for the purpose of repair, retrofit, or modification, on or after the operative date of the act adding this subdivision.



## ATTACHMENT D

0890-001-0890

Provisions.

1. Of the amounts appropriated in this Item, \$1,700,000 shall be used for operational costs associated with implementation of the Help America Vote Act.
2. Prior to the expenditure of any other funds in this item, the Secretary of State shall submit a spending plan to the Department of Finance for approval. The spending plan may set out proposed expenditures in whole or in part depending on the guidelines issued by the Federal Election Assistance Committee. The spending plan shall include, at a minimum, (1) a detailed description and schedule of proposed expenditures by function and activity, (2) a description and detail of any proposed hiring of state employees or the use of consulting contracts, (3) a timeline for the meeting of federal requirements, and (4) any estimated costs to meet federal requirements which exceed the appropriated funds. It is the intent of the Legislature that the spending plan provide more specific details as to the effective use of the funds than have been previously provided and that the public policy goals behind the spending plan be made explicit. No approval of a spending plan by the Department of Finance shall be effective sooner than 30 days following transmittal of the plan to the Chairperson of the Joint Legislative Budget Committee and the chairperson of the committee in each house that considers election issues, or not sooner than whatever lesser time the chairperson of the joint committee, or his or her designee, may determine.
3. No funds in this item shall be spent on a statewide voter database prior to the Department of Finance's approval of a Feasibility Study Report for the project.
4. Upon notification and approval of a spending plan pursuant to Provision 2, the Department of Finance may authorize the transfer of amounts from this item to Item 0890-0101-0890 in order to realign the budget in a manner that is consistent with the approved plan.

0890-101-0890

Provisions

1. Prior to the expenditure of any funds in this item, the Secretary of State shall submit a spending plan to the Department of Finance for approval. The spending plan may set out proposed expenditures in whole or in part depending on the guidelines issued by the Federal Election Assistance Committee. The spending plan shall include, at a minimum, (1) a detailed description and schedule of proposed expenditures by function and activity, (2) a description and detail of any proposed hiring of state employees or the use of consulting contracts, (3) a timeline for the meeting of federal requirements, and (4) any estimated costs to meet federal requirements which exceed the appropriated funds. It is the intent of the Legislature that the spending plan provide more specific details as to the effective use of the funds than have been previously provided and that the public policy goals behind the spending plan be made explicit. No approval of a spending plan by the Department of Finance shall be effective sooner than 30 days following transmittal of the plan to the Chairperson of the Joint Legislative Budget Committee and the chairperson of the committee in each house that considers election issues, or not sooner than whatever lesser time the chairperson of the joint committee, or his or her designee, may determine.
2. Upon notification and approval of a spending plan pursuant to Provision 1, the Department of Finance may authorize the transfer of amounts from this item to Item

0890-001-0890 in order to realign the budget in a manner that is consistent with the approved plan.

## **ATTACHMENT E**

### **Transfer Unclaimed Scholarshare Funds to the General Fund**

SEC. XX Section 69995 of the Education Code is amended to read:

69995. (a) It is the intent of the Legislature in enacting this article to encourage high school pupils to study hard and master the California academic content standards adopted by the State Board of Education and to excel in mathematics and the sciences.

(b) The Scholarshare Investment Board, known hereafter as "the board," unless otherwise specified, shall administer the programs authorized by this article, including the adoption of rules and regulations as provided by subdivision (d) of Section 69981, and in so doing shall cooperate with the State Department of Education, the Treasurer's office, the Controller, the college board, private test publishing companies, and other entities necessary to ensure the accurate and timely identification and reporting of award recipients, granting of awards, and administration of these programs. The State Department of Education shall ensure that the contract with the test publisher selected pursuant to Section 60642 reflects the reporting requirements of this article and that the publisher meets those requirements.

(c) The definitions in Section 69980 apply to this article.

(d) To be eligible for an award pursuant to the programs authorized by this article, a pupil shall meet all of the following eligibility criteria:

(1) The pupil took the achievement test authorized by Section 60640 in grade 9, 10, or 11.

(2) The pupil was enrolled at a California public school for at least 12 consecutive months immediately preceding, or was in attendance for at least 110 days of the school year in which the test is administered and at least 110 days of the school year immediately preceding, the administration of the achievement test specified in paragraph (1), as evidenced by his or her school records obtained pursuant to administration of the program authorized by this article.

(3) The pupil took both of the following:

(A) The nationally normed reading and mathematics portions of the achievement test, as specified by the State Board of Education and authorized by Section 60640.

(B) The English/language arts and mathematics portions of the achievement test authorized by Section 60640 that are augmented and aligned, pursuant to Section 60643, with the California academic content standards, unless otherwise exempted by action of the State Board of Education.

(e) (1) Awards made pursuant to this article shall be an entitlement to pupils identified as qualifying for an award pursuant to this article. The State Department of Education shall annually provide the board with an estimate of the number of pupils with qualifying scores by October 15. Within 30 days of receipt of the estimate, the board shall deposit a single amount equal to the sum of the

amounts of the awards earned by qualifying pupils, as specified in subdivision (f), into a single account separate and apart from all participant accounts within the Golden State Scholarshare Trust in the names of those pupils.

**(2) Notwithstanding subdivision (1), and subsections (b) and (c) (1) of Section 69996 or any other provision of law or regulation, the board shall authorize the transfer of \$50 million deposited for awards earned but unclaimed for the 2000-01, 2001-02 and 2002-03 fiscal years to the General Fund. These funds shall be transferred from the single accounts established, in each of the years previously stated, within the Golden State Scholarshare Trust, no later than 30 days after the enactment of the Budget Act of 2004. To the extent that there are insufficient funds available within the remaining single accounts, the General Fund shall be liable for any funds required to establish participant accounts for students who claim their 2000-01, 2001-02, or 2002-03 awards, consistent with Section 69996. After the funds are transferred to the General Fund and if there are insufficient funds remaining in the single accounts to establish the separate participant accounts, the Controller shall transfer funds from the General Fund to the Golden State Scholarshare Trust upon notification by the board that funds are needed to meet the General Fund's liability. The board shall promulgate regulations that are consistent with this paragraph pursuant to the authorization provided under Section 69999.**

(f) (1) (A) For the 2003-04 fiscal year, only awards earned by pupils enrolled in the 12th grade during the 2003-04 academic year shall be deposited as described in subdivision (e). This paragraph applies to awards for recipients who qualify for awards pursuant to this article if the awards were not deposited by the board before July 1, 2003.

(B) Notwithstanding subparagraph (A) or any other provision of law, for the 2003-04 fiscal year only, the transfer of funds for the purpose of making deposits as described in subdivision (e) may be delayed for one additional year or until the pupil is enrolled in an institution of higher education if authorized in legislation enacted during the 2003-04 Regular Session.

(2) For the 2004-05 fiscal year, only awards earned by pupils enrolled in the 12th grade during the 2004-05 academic year shall be deposited as described in subdivision (e). If a pupil also earned an award in a prior year, the board shall calculate an amount equal to the award earned, plus an amount equal to the interest that would have been earned had the recipient's award funds been annually deposited on October 15 of the recipient's junior year of high school enrollment. This paragraph applies only to awards earned by recipients who qualify for awards pursuant to this article if the awards were not deposited by the board before July 1, 2003.

(3) For the 2005-06 fiscal year, and each year thereafter, awards earned by pupils enrolled in the 12th grade during the 2005-06 academic year and each respective academic year shall be deposited as described in subdivision (e). If a pupil also earned an award in a prior year, the board shall calculate an amount equal to the award earned, plus an amount equal to the interest that would have been earned had the recipient's award funds been annually deposited on October 15 of the recipient's sophomore or junior years of high school enrollment, or both sophomore and junior years of high school enrollment. This paragraph applies only to recipients who qualify for awards pursuant to this article if the awards were not deposited by the board before July 1, 2003.

(g) Scholarship assets may not be commingled for investment purposes with participant accounts. Notwithstanding Section 69991, all assets of the

scholarship account, while part of the Golden State Scholarshare Trust, are owned by the state until used to pay the qualified higher education expenses of the beneficiary.

(h) The entity contracted for the assessment authorized by Section 60640 shall annually, on or before January 15, provide the board a digital report that contains a final list of pupils identified as qualifying for an award pursuant to this article. To ensure that this digital report is accurate and is prepared on a timely basis, all corrections to and revisions of the data that are used to prepare the digital report shall be submitted to the State Department of Education on or before November 15 of the preceding year.

(i) Deposits made to the scholarship account shall be invested according to the guidelines established by the board pursuant to the requirements of state and federal law. The deposits shall be invested through a guaranteed funding agreement with an interest rate to be declared annually by the investment manager, or through another investment determined by the board to be equally or more secure. For purposes of this section, a guaranteed funding agreement is an approved investment vehicle for state-owned scholarship funds.

(j) This article does not prevent any pupil from seeking private or other funding sources to supplement the amount of any funds awarded pursuant to this article.

(k) Award recipients shall be informed that the programs authorized by this article do not guarantee in any way that higher education expenses will be equal to projections and estimates provided by the board, nor that the claimant will be guaranteed any of the following:

(1) Admission to an institution of higher education.

(2) If admitted, a determination that the award recipient is a resident for tuition purposes by the institution of higher education.

(3) Continued attendance at the institution of higher education following admission.

(4) Graduation from the institution of higher education.

(5) Savings sufficient to fully cover all qualified education expenses of attending an institution of higher education.

(l) Notwithstanding any other provision of state law, any funds awarded pursuant to this article shall augment and not supplant student financial aid from other public sources, inclusive of calculating eligibility for student financial aid.

(m) Notwithstanding any other provision of law, the awards and earnings claimed by a recipient pursuant to this article shall be exempt from state income tax liability.

(n) To the extent allowed under federal law, any funds awarded pursuant to this article may not be considered in the federal needs analysis for student financial aid, as they are an asset of the state until used for the payment of qualified higher education expenses.

## **ATTACHEMENT F**

### **Proposed Budget Bill Language for the California Debt Limit Allocation Committee Fund (Fund 0169) Loan**

The transfer made by this item is a loan to the General Fund that shall be fully repaid by October 1, 2006. This loan shall be repaid with interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer. The State Controller shall, within 15 working days of receipt of written notification from the Department of Finance, transfer from the General Fund to the California Debt Limit Allocation Committee Fund the full amount of the loan or increments thereof as requested by the Department of Finance. It is the intent of the Legislature that repayment is made so as to ensure that current and newly authorized programs supported by this fund are fully and timely implemented as approved by the voting members of California Debt Limit Allocation Committee Fund. It is also the intent of the Legislature that repayment is made to ensure compliance with federal and state statutes or requirements. Accordingly, the Department of Finance shall, within 30 days of receipt of written notification documenting the need of the loan repayment from the California Debt and Limit Allocation Committee, provide written notification to the State Controller notifying the State Controller of the amount to be transferred from the General Fund to the California Debt Limit Allocation Committee Fund.

## ATTACHMENT G

### **Proposed Budget Bill Language for the Occupancy Compliance Monitoring Account, Tax Credit Allocation Fee Account (Fund 0448) Loan**

*The transfer made by this item is a loan to the General Fund that shall be fully repaid by October 1, 2006. This loan shall be repaid with interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer. The State Controller shall, within 15 working days of receipt of written notification from the Department of Finance, transfer from the General Fund to the Occupancy Compliance Monitoring Account, Tax Credit Allocation Fee Account the full amount of the loan or increments thereof as requested by the Department of Finance. It is the intent of the Legislature that repayment is made so as to ensure that current and newly authorized programs supported by this account are fully and timely implemented as approved by the voting members of the California Tax Credit Allocation Committee. It is also the intent of the Legislature that repayment is made to ensure compliance with federal and state statutes or requirements. Accordingly, the Department of Finance shall, within 30 days of receipt of written notification documenting the need of the loan repayment from the California Tax Credit Allocation Committee, provide written notification to the State Controller notifying the State Controller of the amount to be transferred from the General Fund to the Occupancy Compliance Monitoring Account, Tax Credit Allocation Fee Account.*

## ATTACHMENT H

### **Proposed Budget Bill Language for the Tax Credit Allocation Fee Account (Fund 0457) Loan**

*The transfer made by this item is a loan to the General Fund that shall be fully repaid by October 1, 2006. This loan shall be repaid with interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer. The State Controller shall, within 15 working days of receipt of written notification from the Department of Finance, transfer from the General Fund to the Tax Credit Allocation Fee Account the full amount of the loan or increments thereof as requested by the Department of Finance. It is the intent of the Legislature that repayment is made so as to ensure that current and newly authorized programs supported by this account are fully and timely implemented as approved by the voting members of the California Tax Credit Allocation Committee. It is also the intent of the Legislature that repayment is made to ensure compliance with federal and state statutes or requirements. Accordingly, the Department of Finance shall, within 30 days of receipt of written notification documenting the need of the loan repayment from the California Tax Credit Allocation Committee, provide written notification to the State Controller notifying the State Controller of the amount to be transferred from the General Fund to the Tax Credit Allocation Fee Account.*



## **ATTACHMENT I**

### **Trailer Bill for Contractor Payment Language**

SEC. 1. Section 1088.9 is added to the Unemployment Insurance Code to read:

1088.9. (a) Effective January 1, 2005, any service-recipient required to report payments made to a service-provider pursuant to Section 1088.8 shall deduct and withhold a tax of 2 percent on payments made in any year to the service-provider.

(b) Any service-recipient failing to withhold from any payments any amounts required by subdivision (a) to be withheld is liable for the amount required to be withheld, unless it is shown that the failure to withhold is due to reasonable cause.

(c) The Franchise Tax Board shall be allowed access to the information filed with the department pursuant to this section.

(d) The Employment Development Department shall develop and publish forms and procedures for reporting and remitting payments made and taxes withheld under this section.

(e) For purposes of this section, the terms "service-provider" and "service recipient" have the same meanings as applicable for purposes of Section 1088.8.

## **ATTACHEMENT J**

### **Control Section 4.05**

SEC 4.05. (a) In reviewing the amount proposed for Items 9800-001-0001, 9800-001-0494, and 9800-001-0988, the Legislature has determined that there should be a 5% reduction in the level of funding for employee compensation for those state employees who received time off in lieu of a portion of pay such as has been provided in a Personal Leave Program. In addition, there shall be no increase in the level of funding for salary and benefit increases that are to take effect after June 30, 2004. These reductions were made to the amounts appropriated in Items 9800-001-0001, 9800-001-0494, and 9800-001-0988 because the State is facing an extreme fiscal crisis, and it would be fiscally imprudent to commit state funds for employee compensation as provided in the memoranda of understanding for these bargaining units.

(b) The Department of Personnel Administration shall issue pay letters or take any other actions necessary to implement the 5% reduction in the level of funding for employee compensation referenced in section (a) above. The State Controller similarly shall take any and all actions necessary to implement the 5% reduction in the level of funding for employee compensation and take no action to implement any increase to salary or benefits that is to take effect after June 30, 2004. No director of a department or any executive officer of a board, bureau, or commission shall take any action to increase the level of compensation for employees above the compensation levels described in subdivision (a) above. The prohibitions of this provision are intended to apply to general employee compensation policies, and do not preclude the promotion or reclassification of employees or the granting of merit salary adjustments for employees.

## **ATTACHMENT K**

### **Control Section 4.10**

SEC. 4.10. (a) Notwithstanding any other provision, the Director of Finance in consultation with Agency Secretaries and other Cabinet members shall reduce General Fund appropriations for 2004-05 by a total of \$150,000,000 (one hundred fifty million dollars). Each Agency Secretary shall recommend to the Director of Finance amounts to be reduced from the appropriations to departments within the Agency. The Director of Finance may provide the Agency Secretaries with target reduction amounts, in which case, the Agency Secretaries shall provide the Director of Finance with a list of recommended reductions that is no less than the target amount for that Agency. For departments not reporting to an Agency Secretary, the Director of Finance shall determine the amount of the reductions.

(b) The Director of Finance shall not reduce the amounts appropriated for higher education; the courts; the Legislature; Constitutional Officers; debt service including, but not limited to, Tobacco Settlement Revenue Shortfall, payment of interest on General Fund loans, and interest payments to the Federal Government; Health and Dental Benefits for Annuitants, Equity Claims before the Victim Compensation and Government Claims Board, Augmentation for Contingencies or Emergencies, and Capitol Outlay Planning and Studies Fund pursuant to this section.

## ATTACHEMENT L

### Control Section 4.35

*Sec. 4.35. (a) The Department of Finance shall identify all positions loaned to the Office of the Governor from other departments and agencies and shall transfer those positions and associated General Fund authority from the appropriate department or agency to the Office of the Governor.*

*(b) For loaned positions not funded by the General Fund, the Director of Finance shall reduce the funding authority associated with those positions in the appropriate departments, and transfer the position authority to the Office of the Governor.*

*(c) Notwithstanding any other provision of law, the Director of Finance may augment the amount available for expenditure by the Office of the Governor to pay the costs associated with the transfer of loaned positions that were not funded by the General Fund.*

*(d) Upon conclusion of the 2004-05 fiscal year, the Director of Finance shall furnish the chairpersons of the committees in each house of the Legislature that consider appropriations and the Budget, and the Chairperson of the Joint Legislative Budget Committee, with a report on all transfers and augmentations for that fiscal year.*

## ATTACHMENT M

### Control Section 4.60 Revisions

SEC. 4.60. ~~Notwithstanding any other provision of law, the Department of Finance shall adjust any item of appropriation in this act, as appropriate, to fund the rent for state office buildings.~~ (a) *The Legislature finds and declares that it is in the best interest of the State, in managing state office buildings and in leasing private space, to use procedures that recognize the value of these assets to the State and the people served by the State's programs. Additionally, costs incurred by State entities for rent, operations and maintenance, debt service, and overhead charges should be assessed to state entities in an equitable manner.*

(b) *On or before August 1, 2004, the Department of Finance shall report to the fiscal committees of both houses of the Legislature regarding the feasibility of assessing a surcharge on state departments that allocates overhead costs currently incurred by the Department of General Services, some of which are recovered through building rental rates, to all state entities receiving a benefit from these costs. This report shall also include recommendations regarding the feasibility of using a portfolio methodology to establish state office building rental rates, including the re-allocation of lease revenue debt service payments and operations and maintenance costs associated with state office buildings.*

(c) *Not sooner than 30 days after the transmittal of this report, the Director of Finance is authorized to adjust any item of appropriation in this act to effectuate the recommendations or findings included in the report. In addition, the Director of Finance is authorized to transfer between items of appropriation in order to reallocate debt service, if such changes are determined to be consistent with the State's legal obligation to bond holders."*

## ATTACHMENT N

### Punitive Damages Proposal – Trailer Bill

Attachment B

*The people of the State of California do enact as follows:*

SECTION 1. Section 3297 is added to the Civil Code to read:

3297. (a) The Legislature hereby finds and declares, as follows:

(1) Exemplary damages have long been held to be an appropriate form of punishment and deterrence.

(2) Exemplary damage awards are not intended to compensate the injured party.

(3) As exemplary damages are sought to punish a wrongdoer and protect the general public, any award arising from such should be allocated to benefit the general public.

*(b) The award of exemplary damages shall be paid as follows:*

(1) Twenty-five percent to the plaintiff or plaintiffs, upon which the plaintiff or plaintiff's attorney's fee can be calculated.

*(2) The remainder of seventy-five percent is to be deposited into the "Public Benefit Trust Fund", which is hereby created to be administered by the State Controller. Amounts deposited into the "Public Benefit Trust Fund" shall be available for annual appropriation in the Budget Act and shall be used for purposes consistent with the nature of the award.*

(c) Exemplary damages paid to the State of California shall not be considered part of the underlying award for the purposes of calculating contingency fees.

(d) In a tort case in which the cause of action arises from product liability, there shall be no limitation regarding the amount which may be awarded as punitive damages. Only one award of punitive damages may be recovered in a court in this state from a defendant for any act or omission if the cause of action arises from product liability, regardless of the number of causes of action which may arise from such act or omission.

*(e) Exemplary damages awarded against a small business may not exceed 2 percent of the average gross receipts for state income tax purposes for the five fiscal years of the business immediately preceding the filing of the complaint. For purposes of the subdivision "small business" means a small business as defined in Section 11342.610 of the Government Code.*